TDK

THE

"Exciting"

COMPANY

OUT OF THE SHELL

RECORDING INTERFACES COMMUNICATIONS ENERGY

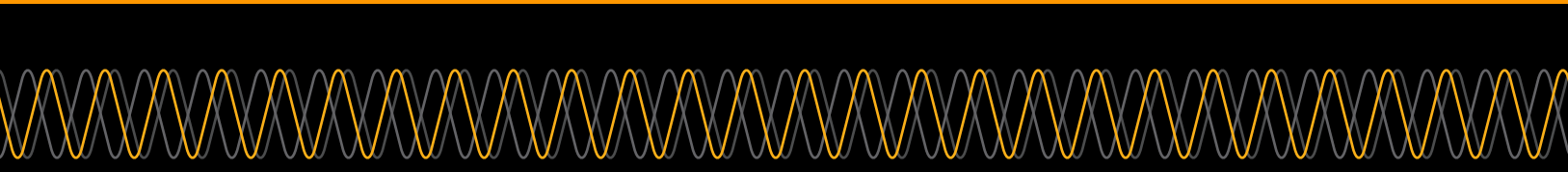
TDK Corporation

annual report 1999

April 1998-March 1999

The Company

TDK Corporation manufactures electronic materials, electronic components, recording media and many other products. Products using magnetic materials represent the largest share of sales, extending from ferrite cores, magnets and cassette tapes to MR heads and optical disks. Expertise extends to the development of a diverse array of other electronic materials and precision manufacturing processes as well. By leveraging these core skills, TDK is enlarging the scope of its research activities to establish major positions in new markets as well as expand existing ones. Based in Tokyo, Japan, TDK has 31,305 employees at development, manufacturing and sales bases in 21 countries.



HOW TDK IS BREAKING OUT OF THE SHELL

On the Cover

TDK is undergoing a transformation. In essence, we're breaking "out of the shell" to take on new challenges in management practices, the products we make and how we evaluate our performance. This year's annual report discusses this theme from many perspectives.

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To Our Shareholders
Having completed his first fiscal year as TDK's president and CEO, Hajime Sawabe looks back on a difficult period and outlines his goals for TDK over the next few years.

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Interview With the President
Touching on a number of points affecting TDK's future, this discussion provides insights into President Hajime Sawabe's vision. A number of questions shed light on concrete targets and plans for improving performance.

>> page 10
TDK's Major Technologies and Products
No other business field today offers more potential for opportunities than electronics. These six pages explain how TDK is drawing on traditional strengths to forge into new fields, all within the scope of the company's strategic focus on recording, interfaces, communications and energy.

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Fiscal 1999 Performance Matrix
Major products and operating results are summarized in this section. While a difficult climate caused unsatisfactory results in fiscal 1999, TDK has definitive strengths in core product sectors that yield valuable competitive advantages.

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management

(pages 3 and 6)

A newly applied managerial standard is just the start of a comprehensive revamping of how TDK is managed. Another central theme is to become a company that is global in its businesses and in making good use of management resources—not just because TDK has sizable operations outside Japan.

financial goals

(page 5)

In April 1999, TDK introduced a measure called TDK Value Added (TVA) to evaluate the performance of individual business units. Additionally, cash flows will play a greater role in decision-making. The objective: steadily enhancing TDK's market value.

products

(page 10)

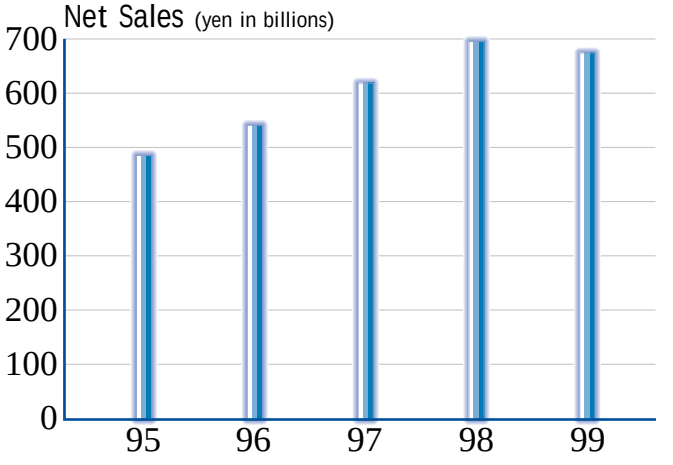
Expertise in magnetic and other inorganic electronic materials has long been a hallmark of TDK. Now, R&D divisions are delving into such peripheral fields as functional organic materials, essential to making certain optical disks, and semiconductor processes.

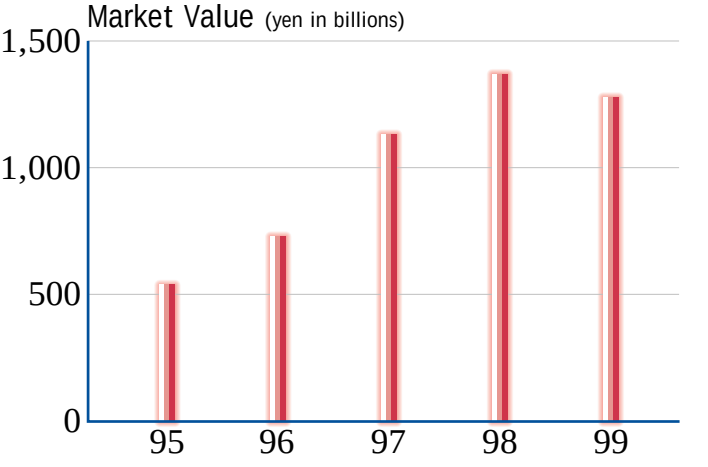
<< FINANCIAL HIGHLIGHTS >>

Yen in millions and U.S. dollars in thousands, except per share amounts

	Years ended March 31			
	1999	1998	1999	Change (%)
Operating Results				
Net sales	¥676,250	¥696,677	$5,588,843	(2.9)
Magnetic products	121,992	135,055	1,008,198	(9.7)
Ceramic and assembled components	157,156	163,916	1,298,810	(4.1)
Recording devices	209,544	203,069	1,731,769	3.2
Semiconductors and others	28,381	34,355	234,554	(17.4)
Electronic materials and components	517,073	536,395	4,273,331	(3.6)
Recording media	159,177	160,282	1,315,512	(0.7)
(Overseas sales)	442,908	432,362	3,660,397	2.4
Net income	46,007	58,371	380,223	(21.2)
Net income per share (basic)	345.42	438.25	2.85	
Net income per share (diluted)	345.42	438.25	2.85	
Cash dividends per share	60.00	60.00	0.50	
Financial Position				
Total assets	¥740,180	¥722,860	$6,117,190	2.4
Stockholders' equity	532,111	520,989	4,397,612	2.1
Long-term debt, excluding current installments	1,787	3,145	14,769	(43.2)
Performance Indicators				
Overseas production/net sales	57.0	55.4		
Gross profit margin	29.9	32.6		
Return on equity	8.7	11.7		
Price-earnings ratio	27.8	23.5		

Notes: 1. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥121=US$1.
2. The Company has not applied U.S. generally accepted accounting principles (U.S. GAAP) in accounting for investments in certain debt and equity securities. Total assets and stockholders' equity, in accordance with U.S. GAAP, were ¥743,512 million ($6,144,727,000) and ¥535,398 million ($4,424,777,000) as of March 31, 1999, and ¥733,104 million and ¥530,791 million as of March 31, 1998, respectively.





(yen in billions)

	1995	1996	1997	1998	1999
Net Sales	485	541	621	697	676

(yen in billions)

	1995	1996	1997	1998	1999
Market Value	533	725	1,132	1,372	1,277

Hajime Sawabe, President and CEO

A COMPANY THAT WELCOMES CHALLENGES >> Challenges drive companies to greater heights. This is certainly true of TDK. We have grown by constantly striving for breakthroughs at the leading edge of the electronics industry. We want to be recognized as a company that is always willing to take on new challenges. I was named president of TDK exactly one year ago. One of my first actions was to set forth the following three fundamental goals for the 21st century. These goals also represent the guidelines for our next challenges.

1. RETURN TO TDK'S ORIGINAL PHILOSOPHY OF "CREATIVITY" More creativity must be introduced into the entire business operation cycle from development through manufacturing, sales, distribution and all corporate functions.

2. AIM FOR TRUE GLOBALIZATION Becoming global means establishing localized operating structures to match the market characteristics of each country or area - not merely expanding sales networks or manufacturing sites outside Japan. Our values should not be rooted in a unitary Japanese perspective. We need to view TDK's business activities from more points of view and from a worldwide level. Moreover, the even more efficient use of management resources, including people, on a global scale is another significant point of this globalization.

3. BECOME AN "EXCITING COMPANY" Together with aforementioned creativity and globalization, TDK should be the company that can constantly offer excitement to shareholders, customers, employees and society. Today's rapidly evolving high-tech marketplace provides plenty of sources of excitement. We want this change to drive growth at TDK, which is a company that has traditionally thrived by taking on new challenges. There is certainly no shortage of opportunities. Just look at progress in digital products and networking, for example, or Intelligent Transport Systems (ITS) for highways. Seeking exciting businesses in these areas, TDK is already primed for new challenges by using its traditional strengths in a diverse array of electronic materials and production processes.

<<TO OUR SHAREHOLDERS>>

RAISING SALES AND EARNINGS >> Consolidated net sales were down 2.9 percent to ¥676.3 billion and net income fell 21.2 percent to ¥46.0 billion. The last time annual sales and profits both fell was March 1994. This performance reflected the yen's strength, weakness in Japan and other Asian markets, and soft demand for audio and visual products. But a key problem was our inability to cope adequately with falling prices brought about by worldwide deflationary pressures. We will strive to build the new business structures needed to adapt quickly to changes in the needs of our customers on a global scale. However, MR heads were a continuing source of strength, as were optical disks, despite much lower unit prices, and multilayer ceramic capacitors. We will continue to focus on these promising products.

START SOMETHING NEW >> I have declared to TDK people worldwide that our central theme for 1999 is "Start Something New." The global economy and market have undergone dramatic change. Doing business in the traditional TDK way is already no longer acceptable. The aim of this theme is to surmount the difficulties we are now facing. "Something new" is happening in many parts of TDK right now. Research activities are expanding. In Japan, a new R&D building equipped with the most advanced facilities will soon be completed at our Technical Center near Tokyo. Overseas, we started joint research projects with leading universities of the United States and Europe last year to strengthen local R&D activities. A TDK research base that targets the promising telecom market was set up in Dublin, Ireland in March 1999.

We also revised the system for evaluating the business activities of TDK. As detailed on page 5, TDK is applying a cost-of-capital yardstick called "TDK value added (TVA)" to promote more efficient operations. Applied from April 1999, this system clearly indicates how much value each activity is creating for shareholders. Accompanying TVA will be discounted cash flow analysis for new capital investments. Ultimately, these two concepts will make TDK's operating divisions still more efficient.

FOCUSING RESOURCES ON STRATEGIC FIELDS >> The most important task facing manufacturers is bringing the right products to markets with competitive speed. For that, it is vital to seize the market and identify products where focused investments should be deployed. TDK will continue to target four strategic fields: recording, interfaces, communications and energy. The feature section of this year's report provides an overview of our new major projects and new products in these fields. Environmental preservation is another major issue at TDK. One objective is the acquisition of ISO 14001 certification and promotion of zero emissions. In terms of business activities, we are developing solar cells, components for electric vehicles and lead-free ferrites for electronic components.

SUSTAINING TDK'S VITALITY IN THE 21ST CENTURY >> TDK fabricates over 100,000 products, most of which are electronic components, for a diverse array of markets and customers. This diversity is at the heart of TDK's corporate identity. Underpinning each of these products is our skill accumulated over more than six decades in technologies extending from materials to production processes. In the 1980s, videotapes were a pillar of TDK's growth. Currently, MR heads are a big contributor. TDK's unique technologies created both of these representative products. Now we are faced with the question of where to channel our resources and how to utilize our unique skills most effectively. Our answer is the four business areas mentioned earlier–recording, interfaces, communications and energy–and the environment. But we must move faster in each area. Market forces are constantly shifting. What is common sense today can become tomorrow's folly. Success demands that we intently monitor trends. A broader perspective that is not restricted to our four strategic business areas is imperative as well. We must simultaneously keep our eyes on short, medium and long-term outlooks and global ones as well. This combination of traditional strengths and a focus on the future will be the ingredients of the next stage of growth at TDK.

Hajime Sawabe
President and CEO
June 1999

<< KEY FINANCIAL POLICIES AT TDK >>

New Standards for Gauging Performance

TDK Value Added (TVA)

EVA® is widely used by companies outside Japan to manage companies in a manner that generates higher returns for shareholders. Currently, a growing number of Japanese companies are adopting this standard as well. TDK created TVA, its own management standard that factors in the cost of capital. In April 1999, TVA was added to the statistics used to evaluate the performance of each business unit. This facilitates the establishment of clear targets for returns on capital. Management is better able to determine whether or not a particular activity or product is creating or destroying value for shareholders. TDK plans to use this system to raise the efficiency of its operations. Adoption of TVA has the added benefit of aligning TDK's perspective with that of the investment community, thus forming the basis for meeting the expectations of shareholders by maximizing TDK's value.

Operating Cash Flows

Cash flows have been part of TDK' management process for many years. From April 1999, the company is going one step farther: evaluating how businesses can use resources more effectively to increase cash flows. When judging proposed capital expenditures, discounted cash flow projections will now play a greater role. Individual proposals will be ranked on the basis of their ability to generate cash in excess of the initial investment. This process will better enable TDK to manage returns on its capital expenditures.

Strategy for Investments and Liquidity

Investments to Grow in Strategic Businesses

TDK is focusing investments on the following three objectives to support future growth:

a) Bolster research and development efforts on a global scale
- Formed an R&D subsidiary in Ireland
- Conducting joint projects with U.S. and European universities
- Construction of a new R&D building near Tokyo to speed up the development process

b) Target existing strengths and high-growth fields
- Large-capacity data storage devices
- Magneto-optical recording technology
- Mobile communications
- Products made using semiconductor technology, and others

c) Acquire businesses that offer synergies with existing activities

Investments to Raise Efficiency

From fiscal 2000, TDK will be applying new financial performance standards. The aim is to use assets more productively by aligning products, manufacturing bases and other activities to boost efficiency, profitability and cash flows.

Investments and Adequate Liquidity

Some investors regard TDK's current balance of cash and cash equivalents as unnecessarily high. However, due to the significant risks to which TDK is exposed, management believes that a comparatively high level of liquidity is in the best interests of shareholders. Economic and financial instability is one source of risk. Furthermore, TDK operates in a highly competitive operating environment. As a participant in many rapidly evolving markets, TDK's success is dependent on the ability to constantly fund the investments necessary to create and bring to market new technologies.

Investments to Increase Value for Shareholders

The earnings generated by investments in strategic businesses and higher efficiency can be used in many ways: retained earnings, dividends and share buybacks, among others. When choosing from among these alternatives, TDK places priority on maximizing the company's value. The ultimate aim is to offer investors the optimum combination of capital gains and dividend income over the long term.

Note: EVA® is a registered trademark of Stern Stewart & Co.

TDK President Hajime Sawabe discusses management issues the company faces today and his vision for TDK's future.

1

When you were named president one year ago, you stated that your central objective was to make TDK an "exciting company." Exactly how do you plan to do this?

2

You have announced the adoption of TDK Value Added (TVA), increased emphasis on cash flows and introduced other new ways to measure TDK's performance. How will TDK change as a result?

3

The MR head business is still progressing favorably. With competition so intense, can TDK protect its leadership position in this market?

4

TDK realigned part of the electronic components business organization by separating operations into two groups, one for sales and one for manufacturing. What was the reasoning behind this move?

1. I chose the term “exciting company” to express the new identity that TDK should aim for in the next century. I want TDK to remain a company full of vitality and energy. To do this, we must work even harder at being a company that is a continuous source of exciting ideas and dreams. This is how we can best fulfill our obligations to not only shareholders, but also our customers, employees and society as a whole. Our skills as a manufacturer will form the nucleus of this identity. Above all, we need to develop, manufacture and sell products that excite our customers. This won't be easy. We face unprecedented challenges in the marketplace. One reality is clear: some of TDK's existing business practices are no longer acceptable.

In recognition of this fact, we have already taken various actions. One is a new internal organization. Another is our decision to stress indicators that are directly linked to shareholder value like value added. But the rapid pace of change today demands more. This is why we will establish a new framework for managing TDK and our business units. We will also be transforming the very culture that defines this company. Through these measures, I am convinced that we will transform TDK into an “exciting company.”

2. TVA and cash flow analysis give us clear targets in our drive to pursue efficient resource management by reflecting the cost of capital. Decisions to restructure unprofitable business units and increase investments in attractive markets will be based on these standards. In other words, TDK will even more rigorously select the products that justify large, tightly focused investments. Collectively, these steps equate to the more productive use of capital—essential if we are to serve our shareholders by maximizing the value of their investments in TDK.

3. We aim to be the world's number one producer of MR and other HDD heads. Achieving this goal demands that we maintain our ability to respond quickly and accurately to the changing needs of the market. We are tackling this issue from several angles. In terms of technology, we need to acquire knowledge in new fields to develop new generations of heads. In this process, a long-term perspective and carefully formulated road map are both essential. In terms of manufacturing, we need to effectively apply the mass production expertise from our MR head operations to the next-generation GMR head. Bringing new technologies to market as quickly as possible is imperative. We are doing this by upgrading our concurrent engineering system. This allows both research and manufacturing people to take part in creating new products from the very beginning. By focusing on these areas, TDK will be better able to address customers' needs in a timely fashion. And this is the key to taking us to the top of the HDD head market.

4. We wanted to move even closer to our customers. The new Electronic Components Sales & Marketing Group is structured to conduct sales for individual customers, industries and geographical regions. Now, we are in a better position to extend detailed support to customers on a global scale. Information from customers can be rapidly and efficiently analyzed. This will be invaluable to the formation of business strategies in all areas of TDK. The Electronic Components Business Group oversees production facilities around the world. Another responsibility is planning and developing new products. Here, our aim is to lay the groundwork for new businesses as much as a decade from now.

5

TDK is about to complete a new research building near Tokyo. Overseas, research programs are expanding. Do these events signify the dawn of a new era of R&D at TDK?

6

TDK has a well-established manufacturing network and active research program outside Japan. What are your current goals for overseas operations?

7

How is TDK making its operations more environmentally compatible?

8

How is TDK coping with the Year 2000 (Y2K) problem?

9

The J Plan, TDK's medium-term management plan, sets forth two goals for the fiscal year ending March 2001: consolidated net sales of ¥800 billion and an ROE of 12%. What are the prospects for meeting these targets?

5. Yes. Much of our sales are derived from electronic components used inside other products. Today, we are seeing the size and price of these products fall at the same time as their functions improve. Just look at cellular phones. Naturally, we have to adapt. Our components must perform new functions while being smaller, lighter and less expensive. It is essential that we build upon our ability to create new products by beginning with the most basic element: electronic materials. Traditionally, TDK has been strongest in magnetic materials and ceramics. Now, we are accumulating expertise in organic materials and semiconductor processes as well. We will be using these tools to progress from single to multi-function components, and from individual chip components to entire modules. Superior materials alone are not enough. That's why we're bolstering our circuit design capabilities, too. New manufacturing processes combining thick- and thin-film formation techniques are another way that we will meet the demand for smaller and lighter components.

6. We plan to continue increasing our overseas R&D activities. Local research is essential to staying abreast of markets. From now on, we will become more active both in and outside the U.S. and Europe, where most of our overseas research now takes place. As we grow, we will make use of local research organizations, researchers and other existing resources wherever possible. At TDK, we regard this expansion as imperative to developing products faster and raising the efficiency of R&D activities on a global scale.

Regarding manufacturing, we are now conducting an extensive review and realignment of all activities to improve supply chain management. This program will yield significant improvements in speed, cost and overall efficiency.

7. Every TDK plant in Japan has acquired ISO 14001 certification. By the end of March 2000, we expect that all factories of overseas subsidiaries will be certified, too. We are now improving our ability to conduct environmental assessments of products and use materials that are environmentally compatible. We also incorporate environmental issues into our new product development programs. One way is through the elimination of lead and other potentially harmful substances. And we are hard at work on recycling and reducing waste materials and effluents. Our goal is to become a "zero emission" company.

8. Our Y2K program is structured to preserve the integrity of our entire supply chain. Preparations began in mid-1996. Compliance projects were initiated in February 1998 for information technology (IT) systems and the following June for other systems. Each division started conducting surveys and taking the necessary steps about the same time. By the end of March 1999, TDK's own IT and non-IT systems were both Year 2000 compliant. To address Y2K-related risks throughout the company, we formed a Year 2000 Readiness Committee on March 1, 1999 to supervise all Y2K measures. The committee is charged with preparing a contingency plan that includes external risks by the end of June. We will then have a blueprint for completing the steps needed to prevent any potential Year 2000 problems. Of course, the contingency plan will be continually updated in and after July to take into account changes in the business environment and other matters.

9. Our operating environment is much more different than when this plan was formulated. Japan's economy is mired in a recession. Competition is exerting severe pressure on prices. We have seen the Internet and other data networks come of age. Old business models have become meaningless. Nevertheless, TDK will remain focused on these two goals. We will work toward their fulfillment by molding a sales and manufacturing system that can rapidly transform with our markets, by shortening the product development cycle, and by taking many other steps.

DK ELECTRONIC MATERIALS AND MANUFACTURING PROCESSES. THESE TWO AREAS OF EXPERTISE STAND BEHIND TDK'S DIVERSE ARRAY OF PRODUCTS. TODAY, TDK STANDS ON THE VERGE OF AN EXCITING NEW ERA OF GROWTH. PROPELLING EXPANSION WILL BE PROGRESS IN THREE STRATEGIC AREAS: INORGANIC MATERIALS; ORGANIC MATERIALS; AND SEMICONDUCTOR PROCESSES. THE OBJECTIVE IS HIGHER SALES AND EARNINGS IN THE FOUR HIGH-POTENTIAL APPLICATIONS OF RECORDING, INTERFACES, COMMUNICATIONS AND ENERGY.

TDK AND INORGANIC MATERIALS

This category encompasses mainly ferrite, iron oxide-based magnetic materials, metal magnets and other types of ceramic materials. Progress here is vital to making electronic products more compact, versatile and powerful. Highly efficient ferrite cores cut power consumption and boost battery life. High-energy magnets reduce the size and weight of motors. By assembling new compounds—atom by atom in many instances—TDK is seeking ways to improve performance in key electronic components. Below are just a few examples of recent TDK achievements.

Resonators

TDK developed a lead-free piezoelectric ceramic. This breakthrough will make possible environmentally compatible resonators, a component widely used to generate reference frequencies in cellular phones, PCs and many other products.

Multilayer chip capacitors

Capacitors store electrical energy in dielectric layers sandwiched between metal electrodes. One way to increase the capacitance of multilayer capacitors is making these layers thinner. TDK has cut the thickness of the dielectric layer by more than 75 percent in the last decade. Eventually, TDK plans to stack more than 1,000 dielectric layers into a chip only 1.0 millimeter tall, compared with only several hundred now.

Automotive applications

Electronic components used in vehicles need to preserve their performance even in extreme fluctuations in ambient temperature and humidity. Recently, TDK developed a multilayer chip capacitor and a transformer core that can do just that. These innovations will lead directly to longer battery life in electric vehicles.

Magnets

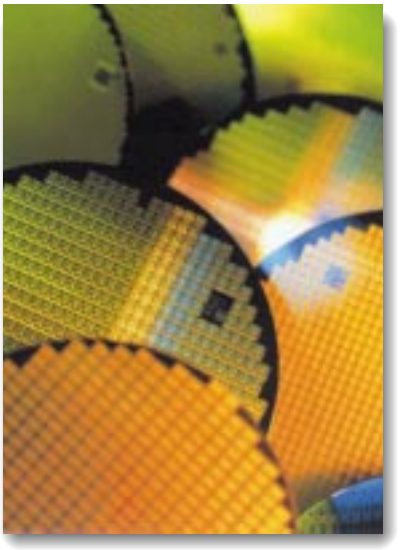
TDK technology that allows more energy to be packed in less space is welcome news to manufacturers of products ranging from automobiles to PCs. Why? Because most electric motors depend on magnets. In automobiles, TDK's ferrite magnets retain their magnetism even in cold climates. In PCs, TDK's ultra-powerful metal magnets spin hard disks and move read/write heads while minimizing motor size and weight.

TDK AND SEMICONDUCTOR PROCESSES

TDK is not a semiconductor manufacturer. But semiconductor process technology has played a critical role in the company's success to date. One of the primary objectives is to produce thin films of materials. Some are measured in angstroms—one ten-billionth of a meter. For example, thin films coat MR heads. TDK's expertise in thin films is leading to more progress in everything from new products like displays to traditional components like multilayer chip capacitors.

Sputtering

In this technique, a thin film of material can be formed virtually atom by atom. This is achieved by shooting ions at a target material, thereby forcing the ejection of atoms to deposit onto another object. One application at TDK is MR heads. Some layers of materials need to be applied in a thickness of fewer than 100 atoms. In MiniDiscs, sputtering is used to apply a TbFeCo alloy coating to the substrate and to form the recording layer.



Vapor deposition

Here, the film is created by a chemical reaction between a vapor and the desired work surface, all within a vacuum. One application of this technology at TDK is Mini DV (digital video) cassette tape. The cobalt coating where signals are recorded is a microscopic 0.2 microns thick.

Spin coating

As the name implies, a precisely controlled quantity of a material is applied to a spinning object. Centrifugal force results in an even coating. The principle is simple. But obtaining the desired results on a commercial scale requires state-of-the-art technology. The recording layer of TDK's CD-R optical discs relies on spin coating to form a recording layer just 0.2 microns thick.

Film analysis

While mass production of thin films is the ultimate goal, measuring film thickness is essential to knowing when that goal has been achieved. This is why TDK has made great strides in film analysis technology in parallel with the development of methods to build increasingly thinner layers of materials.

TDK AND ORGANIC MATERIALS

Until recently, plastic enclosures were the main application of organic materials—which are made of carbon, oxygen and hydrogen—in electronic devices. Now, TDK is using organic materials in active roles. The recording layer of CD-R write-once optical discs is a glittering illustration. TDK's functional organic materials stand on the threshold of rapid expansion. Within the next decade, these compounds may well grow into another pillar of TDK's rich storehouse of electronic materials.

Recording

Organic dye stores data on write-once CD-R optical discs. DVD-R discs will also use these substances, which change instantaneously when heated by a laser. TDK's expertise in organic chemistry and thin-film technology yields highly stable characteristics. Moreover, this experience spells a crucial edge in formulating the pigments that can function with the shorter wavelengths needed to raise recording density.

Sensors

TDK's humidity sensors rely on organic materials whose electrical characteristics vary depending on the environment. Among recent TDK advances are an energy-efficient CO_2 sensor and new materials for detecting glucose and urea in medical applications.

Displays

Most display devices rely on inorganic materials like phosphors and liquid crystals. Changing tack, TDK is studying luminous techniques using organic electroluminescent (EL) materials. There are many benefits: a wider viewing angle, lower power consumption and a more vivid image. TDK plans to merchandise its first organic EL display by the end of 1999.

TDK's Major Technologies and Products

SEMICONDUCTOR PROCESSES

MR/GMR heads

ICs for Telecommunications

Solar cells

Mini DV cassettes

CD-R discs

ORGANIC MATERIALS

Organic electroluminescent displays

DVD-R discs

INORGANIC MATERIALS

Isolators

MiniDiscs

Expertise in magnetic and other inorganic electronic materials has long been a hallmark of TDK. Now, R&D divisions are delving into such peripheral fields as functional organic materials, essential to making certain optical disks, and semiconductor processes.

Resonators

CRT deflection yoke cores

Switching power supplies

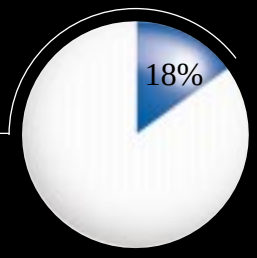
VCOs

Metal magnets

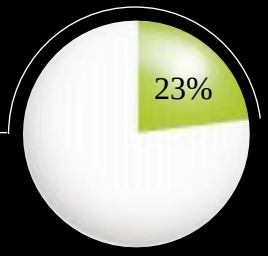
<<FISCAL 1999 PERFORMANCE MATRIX >>

SHARE OF SALES

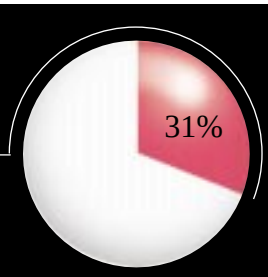
MAGNETIC PRODUCTS



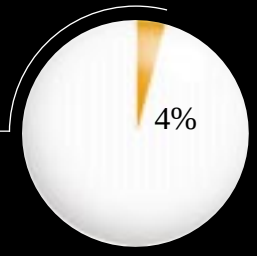
CERAMIC AND ASSEMBLED COMPONENTS



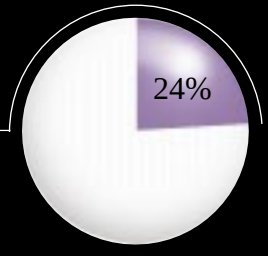
RECORDING DEVICES



SEMICONDUCTORS AND OTHERS



RECORDING MEDIA



PRODUCTS	RESULTS
○→Ferrite cores for inductors and transformers, deflection yoke cores for TVs and computer monitors, EMI (noise-reduction) components, ferrite magnets, rare-earth metal magnets, anechoic testing chambers.	○→Sales decreased 9.7 percent to ¥122.0 billion due to a drop in demand from makers of audio and visual equipment and lower sales of major products in this sector. The fall in sales was most severe in Japan. Supported by a recently completed plant in Hungary, results in Europe were basically unchanged. Wide-screen deflection yoke cores performed well.
○→Ceramic capacitors, high-frequency components, EMC filters, hybrid components, thermistors, piezo-electric components, coils, switching power supplies, DC-DC converters, DC-AC converters.	○→Sales were down 4.1 percent to ¥157.2 billion, mainly the result of a sharp drop in sales in Japan. Poor conditions in the audio and visual equipment industry brought down sales of coils and other components, and falling prices further impacted results. Multilayer chip capacitors for PCs and voltage controlled oscillators for telecommunications posted higher sales.
○→MR and GMR heads for HDDs, heads for FDDs, thermal printer heads.	○→Sales increased 3.2 percent to ¥209.5 billion. Mass production of GMR heads began during the year as demand for MR heads remained strong. However, the ongoing shift in demand to MR technology caused volumes and prices of thin-film heads and other products to fall. The yen's abrupt appreciation in the year's second half further restricted sales growth.
○→PC cards, modems, fax and LAN cards and combination modem/LAN cards, ICs for modems and LAN applications, products incorporating Global System for Mobile (GSM) telephone system technology, and factory automation equipment.	○→Sales fell 17.4 percent to ¥28.4 billion. PC card sales were hurt by intense competition in the U.S. and the shift in demand from external devices to built-in modems, adapters and other circuitry.
○→Rewritable magneto-optical (MO) disks including MiniDiscs, write-once CD-R discs. DVD-RAM and DVD-R discs, audiotapes and videotapes, digital-format videotapes for broadcast applications, floppy disks and other tape-based data storage media for computers.	○→Sales retreated 0.7 percent to ¥159.2 billion in this segment. In optical disks, sales increased as a large rise in volumes outweighed a decline in unit prices. Audiotape sales were lower because of the growing popularity of optical disks. There was no material change in videotape volumes, but a decline in sales prices caused a slight fall in sales.

MAGNETIC PRODUCTS

<< Introduction >>

Sales in this sector are derived mainly from transformer cores, magnets and components to suppress electromagnetic interference. Ferrite represents well over half of sector sales. Basically, ferrite is a type of ceramic material consisting of a crystalline structure of ferric oxide and one or more metallic oxides, such as those of nickel or zinc. There are two main applications. One is as a transformer or inductor core, where ferrite concentrates magnetic energy to raise efficiency. The other is as a magnet, chiefly in motors found in office equipment, audio and visual products, and automobiles. TDK also produces magnets made of rare-earth metals. Holding much more energy in terms of their size than ferrite formulations, metal magnets help reduce the size and weight of motors and activators in such common products as hard-disk drives (HDDs). Anechoic chambers are another important category of magnetic products. Designed to prevent reflections of electromagnetic radiation, these chambers are employed to implement the EMC testing of electronic products when exposed to EM radiation.

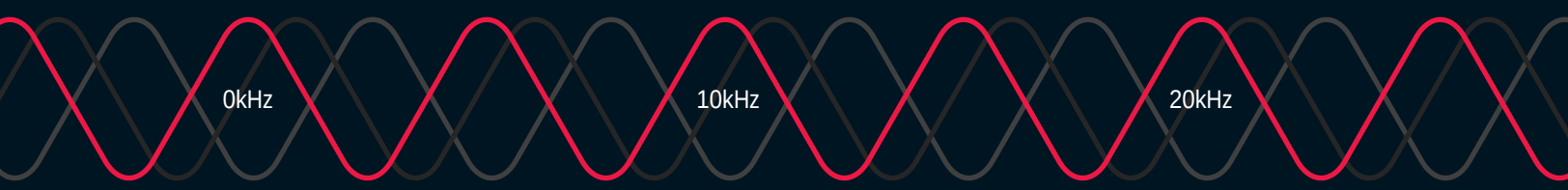
<< Results >>

Weakened economies in several key markets led to a 9.7 percent decline in sales to ¥121,992 million. Lower orders from manufacturers of TVs, VCRs and other audio and visual products were responsible for much of the decrease. The fiscal 1999 fall in sales was even more severe than the downturn in demand that occurred in the previous fiscal year. Market conditions in Japan were the most challenging. The mainstay ferrite core and magnet categories both recorded lower sales. There were, however, a number of encouraging trends. In metal magnets, demand from makers of HDDs remained firm, although unit prices decreased. Deflection yoke cores for wide-screen TVs and other exacting applications also performed relatively well. In Europe, TDK was able to hold sales of magnetic products stable despite intense competition. Products from the Hungary

The Product Spectrum of TDK

DC-DC converter:
0Hz

MiniDisc:
20Hz-20kHz



audible frequencies

plant were a major factor. To heighten its presence in the anechoic chamber market, TDK purchased EMC Automation Inc. of the U.S. TDK can now offer customers comprehensive electromagnetic interference countermeasures including the anechoic chamber, measuring equipment and the necessary software.

CERAMIC AND ASSEMBLED COMPONENTS

<< Introduction >>

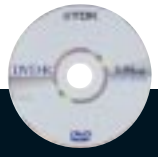
Ceramic components are mostly capacitors, inductors and filters. Explosive growth in sales of portable devices in recent years has led to much higher demand for expertise in ceramic components. TDK has responded with a steady stream of improvements in materials and manufacturing techniques. Although varied, all are aimed at offering even better specifications in smaller components. Two themes are of particular importance at TDK: raising the capacitance of multilayer chip capacitors, thus taking these components into entirely new markets, and creating filters and other products that can accommodate the increasingly higher frequencies handled by cellular phones and other digital products.

<< Results >>

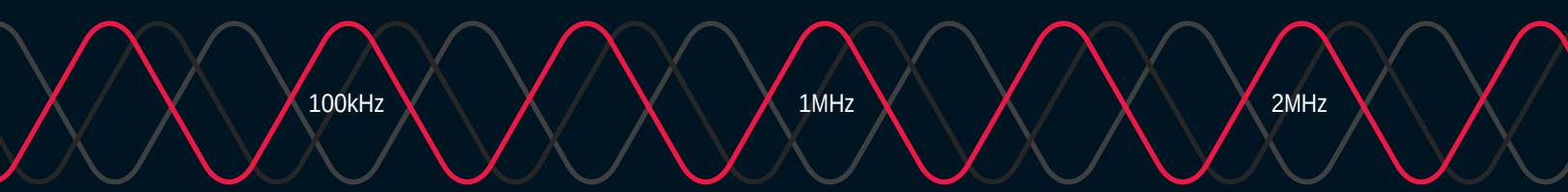
Poor market conditions in Japan and in the important audio and visual product sector caused sector sales to fall 4.1 percent to ¥157,156 million. Sales of multilayer chip capacitors for PCs and voltage-controlled oscillators for high-frequency components increased. Automobile manufacturers are an important and growing source of demand for capacitors and other components. TDK is targeting automotive electronics, including car navigation and other comparatively new products, as one way to drive sales growth. Sensors for automobiles and other products is another area exhibiting good long-term prospects. Electric and electric-hybrid cars are attracting much attention. TDK makes several key components for these vehicles; in 1998, a TDK DC-DC converter was chosen for a hybrid car.

High resolution deflection yoke core:
60~130kHz

CD-R:
720kHz



DVD-R:
1~5MHz



AM radio

Police and aeronautical

Rising signal frequencies offer many opportunities. Exemplifying TDK's progress here are the fall 1998 introductions of two one-of-a-kind components. One new noise filter employs a unique internal structure and ultra-fine materials to remove unwanted signals effectively in the gigahertz range. A recently introduced multilayer chip inductor uses special low-resistance electrodes to eliminate high-frequency interference. Makers of communications equipment welcomed the introduction of both of these revolutionary components.

RECORDING DEVICES

<< Introduction >>

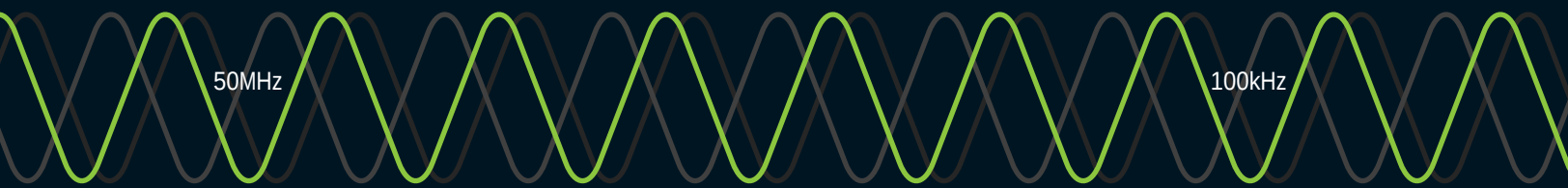
Magnetic heads for computer HDDs generate most of the sales in this sector. TDK ranks among the largest suppliers of these heads in the world. Staying ahead of this field's rapid technological advances while remaining in step with HDD manufacturers' needs are both imperative to survival in this demanding marketplace. The race to heighten recording density is at the core of this progress. TDK heads have progressed from 3.5 Gbits per square inch early in 1998 to about 6 Gbits in the spring of 1999. Further advances in MR technology are projected to raise density to 10 Gbits per square inch by early 2000.

Currently, giant magneto-resistive, or GMR, technology is the mainstream of the HDD head market. A series of refinements is keeping TDK at the forefront of progress. TDK will continue to strive to achieve further advances in GMR head read-write capabilities to raise recording density even higher.

Positioned among the leaders of the HDD head market, and backed by years of experience, TDK has a decisive advantage in retaining its competitive edge. Ties to major HDD makers mean that TDK can learn of future needs early on. An extensive research capability enables that information to be transformed quickly into actual products. And TDK's solid financial position means that large-scale investments can be made quickly, and thus recovered sooner.

Multilayer EMI filter:
50MHz~100MHz

MR head:
100MHz~120MHz



TV and FM radio

Short wave

<< Results >>

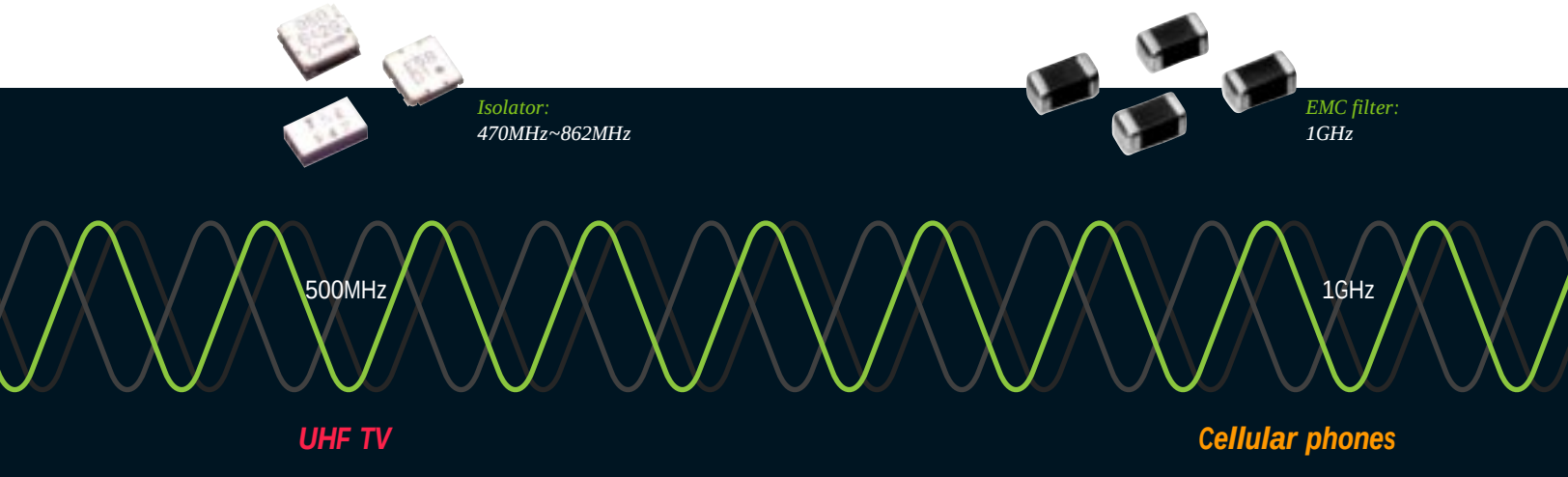
Sector sales increased 3.2 percent to ¥209,544 million. Demand for standard MR heads remained robust as TDK began commercial production of GMR heads during the year. However, sales reflected the negative impact on demand for thin-film inductive heads and other products as customers switched over to MR technology. Results were further impacted by the rapid appreciation of the yen that began in the fall of 1998. TDK's MR head monthly output capacity rose from 12 million units in April 1998 to 20 million in March 1999. Ongoing investments will raise this figure to 25 million by March 2000, thereby doubling MR head production in only two years. During the past year, TDK rapidly increased production of GMR heads in addition to conventional MR heads. As of the end of March 1999, GMR production had grown to account for about 30 percent of TDK's MR production capacity and will probably account for almost 100 percent by March 2000.

Although adverse market conditions are likely to persist, TDK has several valuable advantages: a large and diverse customer base; a solid reputation for reliability; and an efficient manufacturing system. TDK will continue to leverage these advantages, including its technical expertise in the GMR field, to retain its position at the top of the HDD market.

SEMICONDUCTORS AND OTHERS

<< Introduction >>

Sales in this sector are derived primarily from PC modem and LAN cards, modems, communication ICs, and factory automation equipment. PC cards draw on TDK's skills in compact circuit designs and micro-assembly. Although a relatively recent addition to TDK's product line, a number of these cards have attracted attention on a global scale, notably global-class modem cards. TDK Semiconductor Corp. of the U.S. designs ICs for cable TV set-top boxes, LAN devices and other ICs used for communications. Factory automation equipment mostly represents systems that accurately place electronic components on circuit boards at an extremely high rate of speed.



<< Results >>

Soft demand for modem and other PC cards forced sector sales down by 17.4 percent to ¥28,381 million. PC card results were hurt mostly by a much more competitive environment in the U.S. and by the growing tendency for PCs to incorporate functions that were previously done using a PC card. Looking ahead, TDK plans to continue to tap its experience in networks and communication ICs to capitalize on the expanding demand for networking applications, mainly those in the home and in small offices. TDK subsidiary TDK Systems Europe Ltd. provides a valuable platform for developing GSM (Global System for Mobile) mobile communications products, including software that allows PC circuitry to function as a modem.

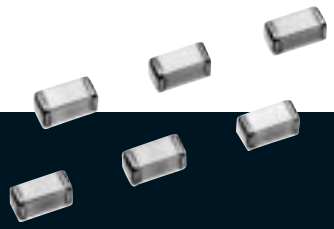
RECORDING MEDIA

<< Introduction >>

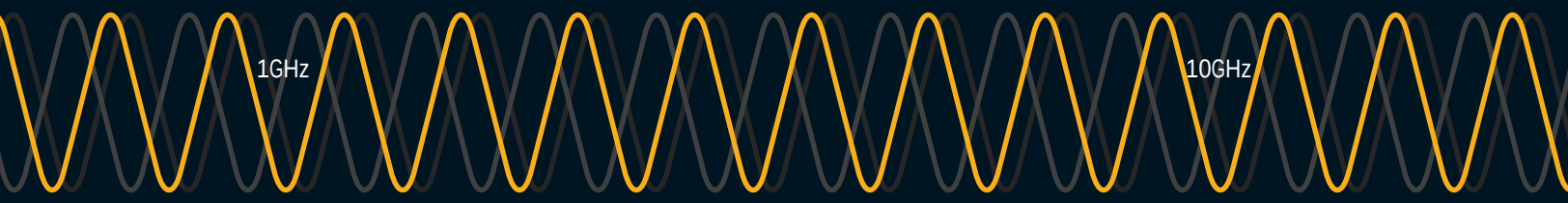
One of the world's premier names in recording media for decades, TDK today retains prominent market positions in both cassette tapes and optical disks. Skill in cassette tapes is rooted in traditional strengths in magnetic materials: audiotape, videotape and floppy disks are all coated with particles that function as microscopic magnets. TDK is firmly positioned as the number one name in audiotape in many important markets. In videotapes, TDK produces a broad line of formats for VCRs, amateur cameras and professional applications.

Likewise, TDK sells a number of optical disk formats. CD-R discs are coated with a dye that permanently changes when exposed to the heat of a laser. These write-once disks are employed chiefly to store irreplaceable data at locations such as hospitals and government offices. CD-ROM mastering is another sizable market. MiniDiscs are a type of magneto-optical disk; as such, they can be erased and recorded again any number of times. Data is recorded by reversing the polarity of tiny sections on the disk's surface, a process that is triggered by the heat of the laser pickup. Regarding DVD discs, TDK has completed work on materials and processes. Commercial-scale production will commence once public acceptance of this format has grown sufficiently.

VCO (QVC10):
0.8GHz~1.9GHz



MLK1005 multilayer chip inductor:
12GHz



Cellular phones

<< Results >>

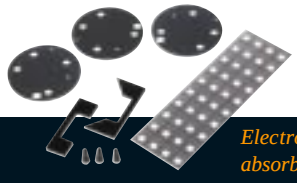
Segment sales decreased 0.7 percent to ¥159,177 million as large volume gains, mainly in optical disks, were erased by falling prices. The decline in audiotape sales and volumes continued as users shifted to optical media. In videotapes, volumes were largely unchanged but sales declined slightly. Results were severely impacted by economic crises in Russia, Brazil and other emerging markets, which collectively have fueled much of the growth in videotape demand in recent years. Discounting in the U.S. and other regions was another negative factor. Sales of videotapes for cameras posted a solid increase. Building on this momentum, TDK in March 1999 started production of Mini DV (digital video) cassettes.

Optical disk sales were much higher due to increasing demand for CD-R discs as the number of applications grew despite continuing price declines. As a result, optical products now represent almost one-fifth of TDK's total recording media segment sales. MD sales rose considerably, posting a more than twofold gain in Europe alone, and prices were reasonably stable.

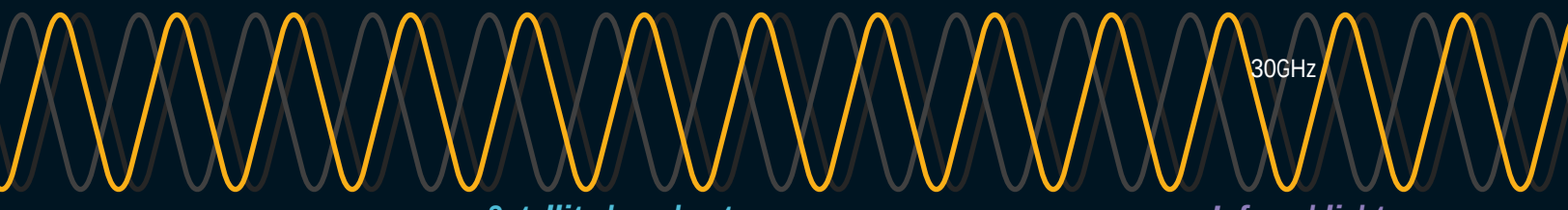
During the year, TDK stepped up optical disk production capacity in Japan and the U.S., and initiated MD production in Luxembourg.

TDK expects global sales of optical disks to rise to 1 billion units in 1999 and to grow by 20 to 30 percent in 2000. Driving this expansion will be the rising number of applications, taking this market beyond data storage to such fields as education and music.

Parabola antenna:
12GHz~13GHz



Electromagnetic absorbent shield materials:
3GHz~30GHz



<<DIRECTORS AND CORPORATE AUDITORS>>

HAJIME SAWABE
President and CEO

MOTOYUKI KURIHARA
Executive Vice President

SHUNJIRO SAITO
Executive Managing Director

JOICHIRO EZAKI
Executive Managing Director

HIROKAZU NAKANISHI
Executive Managing Director

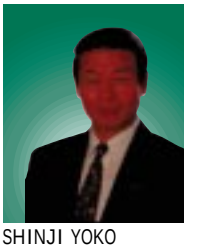
JIRO IWASAKI
Executive Managing Director

SATOSHI ORIMOTO
Executive Director

SUGURU TAKAYAMA
Executive Director

TAKUMA OTSUKA
Executive Director

TAKESHI OHWADA
Executive Director



SHINJI YOKO
Executive Director

TAKESHI NOMURA
Executive Director

YOSHINORI HASHIMOTO
Executive Director

SHUJI WAKAI
Corporate Auditor

SATORU MATSUURA
Corporate Auditor

TAKUYA MORI
Corporate Auditor

KANJI ISHIZUMI
Corporate Auditor

(As of June 29, 1999)

SALES BY PRODUCT SECTOR

In fiscal 1999, the year ended March 31, 1999, TDK's consolidated net sales decreased 2.9 percent to ¥676.3 billion ($5,589 million). The fiscal year was characterized by weak economies in such important overseas markets as the Americas and Japan for electronic components and Russia and Southeast Asia for recording media. Sales were also impacted by intense competition, which reduced unit prices in most product categories. The rapid rise in the value of the yen from the fall of 1998 further reduced overseas sales when translated into yen.

In this environment, TDK's electronic materials and components segment recorded sales of ¥517.1 billion ($4,273 million), a decrease of ¥19.3 billion. This was attributable to weakness in many customer industries, notably manufacturers of audio and visual equipment, and lower prices due to competition. Sales were down in most major product categories, including ferrite cores and magnets, noise reduction components and high-frequency components. Most declines reflected both lower volumes and unit prices, primarily in the second half of the fiscal year. Magnetic heads for hard-disk drives (HDDs), however, recorded another sales increase. Monetary sales lagged behind the rise in unit volume due to lower prices and a drop in orders for thin-film inductive heads as demand continues to shift to MR technology. Recording media segment sales were down ¥1.1 billion to ¥159.2 billion ($1,316 million). Cassette tape sales dropped slightly, the result of lower audiotape volumes and generally lower unit prices for videotapes. Optical disk sales climbed considerably. TDK achieved substantial gains in sales volumes of MiniDiscs and CD-R discs, which offset declines in sales prices. Production volumes of both disks were sharply higher, yielding big improvements in profitability.

SALES BY REGION

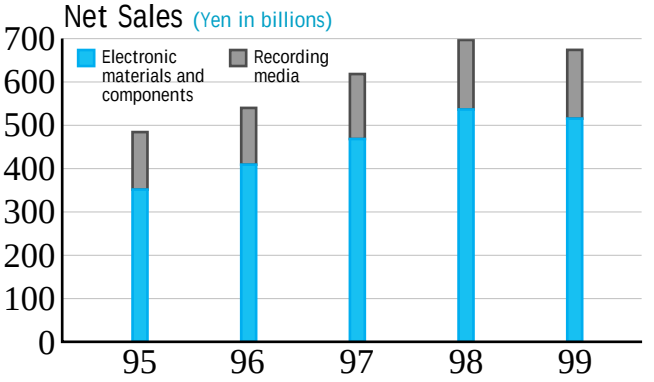
Yen in millions (%)

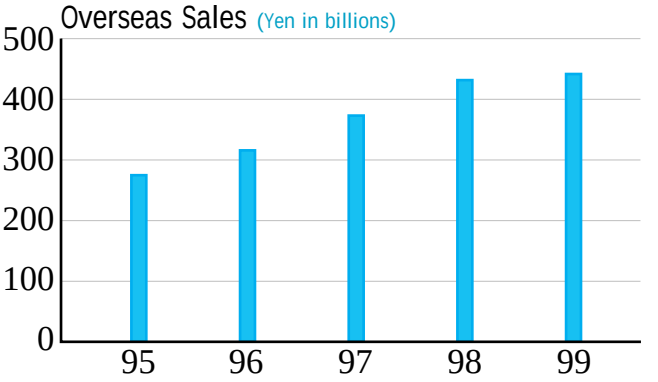
Years ended March 31	1999		1998		1997	
Japan	**¥233,342**	**(34.5)**	264,315	(37.9)	246,619	(39.8)
Americas	**120,084**	**(17.8)**	131,891	(18.9)	114,399	(18.4)
Europe	**93,006**	**(13.7)**	91,137	(13.1)	80,260	(12.9)
Asia (excluding Japan) and Oceania	**227,279**	**(33.6)**	206,604	(29.7)	177,596	(28.6)
Middle East and Africa	**2,539**	**(0.4)**	2,730	(0.4)	1,821	(0.3)
Net sales	**¥676,250**	**(100.0)**	696,677	(100.0)	620,695	(100.0)

Sales in Japan decreased 11.7 percent to ¥233.3 billion ($1,928 million) while overseas sales rose 2.4 percent to ¥442.9 billion ($3,660 million).

In Japan, weakness in consumer spending, capital expenditures and other areas of the economy dragged down sales in all product sectors. In electronic materials and components, sales dipped sharply in magnetic products and ceramic and assembled components. Recording devices sales also fell as more HDD production was moved outside Japan. In the recording media segment, growth in MiniDiscs and other optical media was outweighed by the ongoing contraction in the audiotape market.

In Asia (outside Japan) and Oceania, the aftermath of the 1997 currency crises is still holding economies back and severely limited demand for consumer products incorporating TDK components. A large increase in sales of MR heads lifted total regional sales to an all-time high. Almost all circuit components, most of which are sold to the local plants of finished product makers, posted sales declines.





In the Americas, a healthy U.S. economy fueled solid demand for many TDK products. Manufacturers of computers, communications equipment and automobiles were major sources of orders. The yen's strength against the U.S. dollar during the second half of the fiscal year, however, reduced the sales gains when denominated in yen. The decline in regional sales was mainly the result of a shift in electronic components sales from the Americas to Southeast Asia and a fall in sales of modem cards. Recording media sales declined slightly, the result of much higher optical media volumes, mainly for CD-R discs.

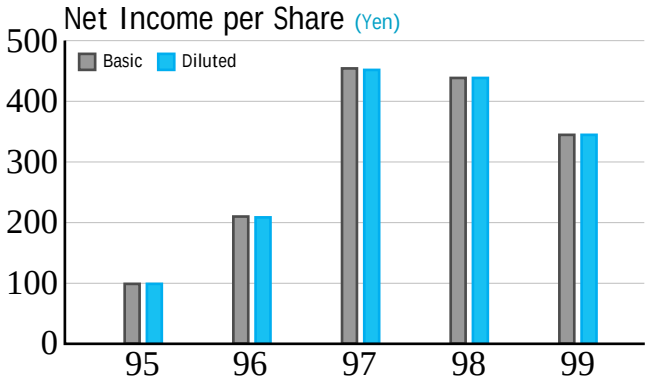
In Europe, TDK was able to achieve a small increase in sales despite challenging market conditions. Markets for electronic components began to deteriorate late in 1998 as European economies weakened and economic difficulties in Russia hurt sales of recording media. However, close ties to prominent European manufacturers and an extensive local production network all combined to support sales. In Hungary, TDK increased capacity and started manufacturing transformers and multilayer chip capacitors. Recording media sales were higher as TDK more than doubled optical media sales while maintaining strong positions in cassette tapes.

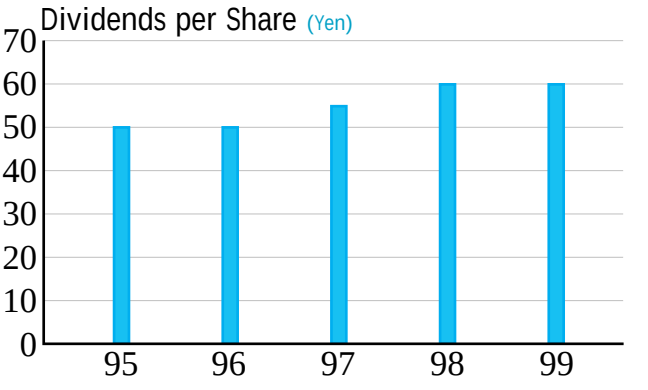
EFFECT OF FOREIGN EXCHANGE MOVEMENTS

TDK's sales and income are susceptible to fluctuations in foreign exchange rates. In fiscal 1999, sales outside Japan accounted for 65.5 percent of total consolidated net sales. During the fiscal year, the yen declined 4.6 percent in relation to the U.S. dollar and 5.4 percent against the British pound, 6.3 percent against the German mark, all based on TDK's average internal exchange rate. TDK estimates that exchange rate movements had the net effect of raising net sales by ¥15.7 billion and net income by ¥2.6 billion in relation to the prior fiscal year.

TDK conducts a large share of business activities outside Japan as one way to offset the impact of exchange-rate fluctuations. Such activities include manufacturing and sales, as well as research, design and procurement. In-region production in fiscal 1999 represented 118 percent of sales in Asia outside Japan and Oceania, 67 percent in the Americas, and 45 percent in Europe. Overseas production accounted for 57.0 percent of total sales in fiscal 1999, compared with 55.4 percent one year earlier, and for 65.5 percent of overseas sales, compared with 62.1 percent one year earlier. During fiscal 1999, TDK significantly increased HDD output capacity in the Philippines, optical disk capacity in Luxembourg, and expanded output of electronic components in Hungary.

TDK and its overseas subsidiaries also hedge exposure to foreign exchange movements by entering into forward foreign exchange and other contracts, including swaps for some foreign currency-denominated obligations. Refer to Note 14 of the notes to the consolidated financial statements for more information. Due to the global nature of operations, management realizes that currency movements continue to have the potential to exert a material influence on consolidated performance.





EXPENSES AND NET INCOME

Yen in millions (%)

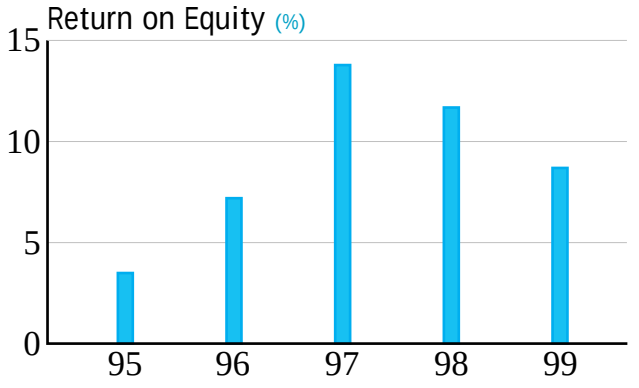
Years ended March 31	1999		1998		1997	
Net sales	¥676,250	(100.0)	696,677	(100.0)	620,695	(100.0)
Cost of sales	473,760	(70.1)	469,872	(67.4)	426,341	(68.7)
Selling, general, and administrative expenses	126,174	(18.6)	128,501	(18.5)	117,106	(18.9)
Other income (deductions)	(891)	(0.1)	1,316	(0.2)	26,056	(4.2)
Income taxes and minority interests	29,418	(4.4)	41,249	(5.9)	43,005	(6.9)
Net income	¥ 46,007	(6.8)	58,371	(8.4)	60,299	(9.7)

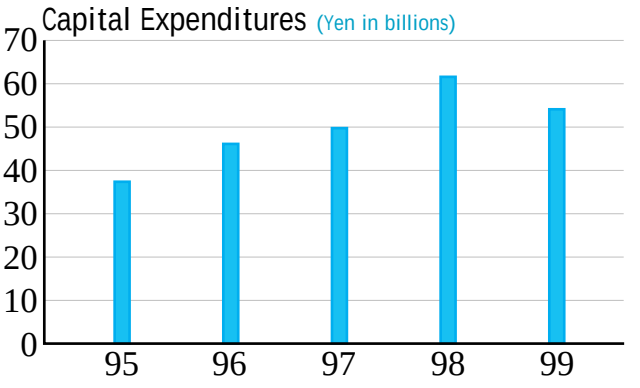
The cost of sales increased 0.8 percent and rose from 67.4 percent to 70.1 percent of net sales in fiscal 1999. This chiefly reflects the effects of price discounting in an environment of generally soft demand. Further impacting the gross profit margin was lower capacity utilization at plants in Japan, and higher depreciation and expenses related to substantial investments in the recording devices sector. Programs to cut production and distribution expenses offset these negative factors to some degree.

Selling, general, and administrative expenses decreased 1.8 percent. As in the past fiscal year, TDK conducted an aggressive worldwide program to pare costs wherever possible. This program was especially effective at reducing selling and administrative expenses. The benefits of these cost-containment efforts offset the negative effect of a weaker yen on overseas expenses and a 3.1 percent increase to ¥26.3 billion ($218 million) in research and development expenses, most of which are included in this category.

Items in other income (deductions) resulted in a net deduction of ¥0.9 billion ($7.4 million). Growth in cash and cash equivalents raised net interest income. Loss on disposal of property, plant and equipment mainly represents the sale of equipment that has become obsolete because of new technology. Other income (deductions) includes a loss of ¥15.0 billion ($124 million) on debt securities, almost entirely Euroyen-denominated Russian credit-linked bonds, and a gain of ¥14.3 billion ($119 million) from sales of investment securities. Other, net includes a foreign exchange loss of ¥1.8 billion ($15 million); in the prior fiscal year, TDK recorded a foreign exchange gain of ¥2.7 billion.

The provision for income taxes was 38.6 percent of income before income taxes, down from 41.0 percent in fiscal 1998. This decline was primarily the result of higher income in regions where tax rates are lower than prior year tax rate. The lower tax rate further reflects a tax reduction in Japan and the continuation of tax incentives at certain TDK facilities outside Japan.





Net income fell 21.2 percent to ¥46.0 billion ($380 million) and basic and diluted net income per share decreased to ¥345.42 ($2.85). Cash dividends paid during the fiscal year totaled ¥60 ($0.50), the same as in the prior fiscal year. This dividend is the sum of ordinary interim and term-end dividends of ¥25 each and a special ¥10 dividend paid together with the June 1998 year-end dividend. Shareholders of record on March 31, 1999 received a cash dividend of ¥35 per share at the end of June 1999.

FISCAL 1998 VS. FISCAL 1997

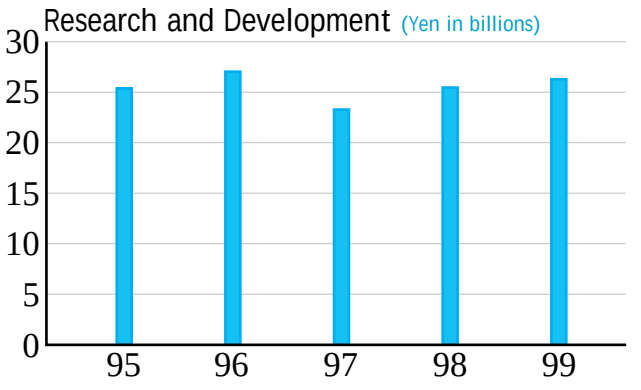
In the year ended March 31, 1998, consolidated net sales rose 12.2 percent to ¥696.7 billion. Foreign exchange movements had the net effect of raising net sales by ¥31.0 billion and net income by ¥8.6 billion. Sales in Japan increased 7.2 percent to ¥264.3 billion, mainly on the strength of HDD heads, multilayer chip capacitors and high-frequency components. Overseas sales climbed 15.6 percent to ¥432.4 billion with all regions outside Japan posting growth. HDD heads lifted sales in Asia (outside Japan) and Oceania and the Americas. Multilayer chip capacitors and high-frequency circuit components did well in the Americas and Europe. The recording media segment benefited from good videotape results in the Americas and Europe.

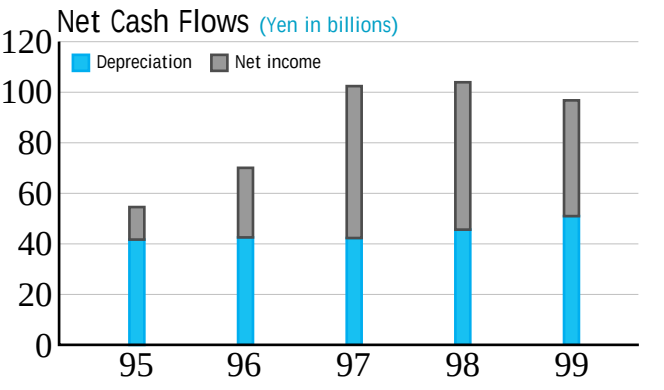
By segment, sales of electronic materials and components rose 14.2 percent to ¥536.4 billion. In magnetic products, magnets, noise reduction products and deflection yoke cores all performed well outside Japan. In ceramic and assembled products, multilayer chip capacitors used in mobile telecommunications led growth. Higher sales of HDD heads raised recording devices sales by almost 50 percent. Recording media sales were up 6.1 percent to ¥160.3 billion. Both cassette tapes and optical media results were higher. Optical disk sales more than doubled in terms of volume.

Operating profit rose 27.3 percent due to the growth in sales, along with the success of cost-containment programs. An improvement in the product mix also contributed to the higher earnings. The effective tax rate remained low as a large share of earnings came from locations where tax rates are lower than in Japan and because of tax incentives at certain plants outside Japan. Net income, however, was down 3.2 percent to ¥58.4 billion because of the prior fiscal year's inclusion of a gain on the sale of a subsidiary.

CAPITAL EXPENDITURES

In fiscal 1999, capital expenditures on a cash basis amounted to ¥54.3 billion ($449 million), well below the ¥61.8 billion of the prior fiscal year. HDD heads, both MR and GMR, accounted for the largest share of capital expenditures. Most of the outlays were used to increase output capacity and introduce new technology at wafer production facilities in Japan and assembly plants in China and the Philippines. Other major overseas project was MiniDisc production facilities in Luxembourg. In Japan, significant projects included a new research building at TDK's Technical Center, a new metal magnet plant, additional multilayer chip capacitor and optical disk output capacity. In fiscal 2000, TDK is projecting that capital expenditures will be ¥55 to ¥60 billion and that depreciation and amortization will rise to approximately ¥53 billion. As in fiscal 1999, these expenditures will mostly target HDD heads, multilayer chip capacitors, optical disks and magnets.





FINANCIAL POSITION

Yen in millions (%)

At March 31	1999		1998		1997	
Short-term debt	¥ 2,327	(0.5)	4,175	(0.8)	6,302	(1.3)
Current installments of long-term debt	1,490	(0.3)	1,743	(0.3)	1,656	(0.3)
Trade notes payable	691	(0.1)	863	(0.2)	832	(0.2)
Long-term debt, excluding current installments	1,787	(0.3)	3,145	(0.6)	4,830	(1.0)
Stockholders' equity	532,111	(98.8)	520,989	(98.1)	474,189	(97.2)
Total capital	¥538,406	(100.0)	530,915	(100.0)	487,809	(100.0)

Note: The Company has not applied U.S. generally accepted accounting principles (U.S. GAAP) in accounting for investments in certain debt and equity securities. Stockholders' equity as of March 31, 1999, 1998 and 1997, in accordance with U.S. GAAP was ¥535,398 million ($4,424,777,000), ¥530,791 million and ¥484,994 million, respectively.

Total assets were ¥740.2 billion ($6,117 million) as of March 31, 1999, an increase of ¥17.3 billion. Cash and cash equivalents were up by ¥45.7 billion to ¥200.1 billion ($1,654 million). Investments and advances rose by ¥15.0 billion to ¥38.9 billion ($322 million), the result of the sale and subsequent repurchase of stocks to generate a gain to offset a large investment loss. Offsetting these increases was a large decrease in several elements of current assets, a reflection of lower sales and the success of efforts to raise efficiency. Net property, plant and equipment also decreased as fiscal 1999 capital expenditures declined following the completion of a number of large projects in the prior fiscal year.

Current liabilities decreased in line with the decline in fiscal 1999 sales. Short- and long-term debt continued to decline. Almost all debt represents loans that TDK is obligated to hold until contractual repayment dates. Retirement and severance benefits increased by ¥19.6 billion to ¥73.8 billion ($610 million). This is the result of the application of a lower discount rate and expected long-term rate of return, and follows a similar action in the prior fiscal year. All of this increase, and the balance of retirement and severance benefits, represents obligations regarding employees in Japan. Refer to Note 8 of the notes to the consolidated financial statements for more information. Higher retained earnings lifted stockholders' equity to ¥532.1 billion ($4,398 million). The increase in equity was limited, however, by a large increase in foreign currency translation adjustments. This is the result of the large fluctuations in the yen's value during the fiscal year. TDK has long-term corporate credit ratings of AA- and A1 from Standard & Poor's and Moody's, respectively. Both agencies give TDK their highest short-term credit ratings, A-1+ and P-1.

CASH FLOWS

Yen in millions

Years ended March 31	1999	1998	1997
Net income	¥ 46,007	58,371	60,299
Depreciation and other adjustments	67,870	64,774	28,657
Changes in assets and liabilities	12,447	(24,788)	3,824
Net cash provided by operating activities	126,324	98,357	92,780
Net cash provided by (used in) investing activities	(62,809)	(70,908)	9,141
Net cash used in financing activities	(11,120)	(12,613)	(65,772)
Effect of exchange rate changes on cash and cash equivalents	(6,742)	1,843	2,080
Net change in cash and cash equivalents	¥ 45,653	16,679	38,229

Cash and cash equivalents increased by ¥45.7 billion to ¥200.1 billion ($1,654 million). This was mainly attributable to a large increase in net cash provided by operating activities. Although net income was lower, depreciation rose and changes in assets and liabilities were a net contributor to cash flows. This was mostly because of declines in inventories and receivables as TDK implemented programs to boost efficiency. Slowing sales in the year's fourth quarter was another factor behind these declines. Net cash used in investing activities was lower as capital expenditures decreased. Dividends were the largest component of net cash used in financing activities. TDK estimates that operating cash flows will again be the primary source of liquidity in fiscal 2000 and does not foresee the need to procure funds externally.

MARKET RISK MANAGEMENT

Market Risk Exposure

The Company is subject to market risk associated with changes in stock prices, interest rates and foreign currency exchange rates. Stock price risk is considered as the primary market risk exposure. The Company has a policy for the procedures and controls to manage market risk sensitive instruments. In order to hedge interest rate risk and foreign currency exchange rate risk, the Company uses derivative financial instruments. The Company does not hold or issue derivative financial instruments for trading purposes.

Stock Price Risk

The Company's exposure to market risk involving changes in stock prices relates to its equity securities categorized as available for-sale securities. The Company holds these securities in order to maintain business relationships with investee companies for the Company's activities and has a policy and control procedures for these stock holdings. The aggregate carrying amounts and fair value of these equity securities were ¥25.9 billion ($214 million) and ¥31.5 billion ($261 million) as of March 31, 1999, and ¥12.0 billion and ¥30.3 billion as of March 31, 1998, respectively. The industries in which the issuers operate consist mainly of electrical machinery and financial services, and the carrying amounts and fair value of the equity securities in these industries were ¥21.7 billion ($179 million) and ¥27.5 billion ($227 million) as of March 31, 1999, and ¥8.9 billion and ¥27.4 billion as of March 31, 1998, respectively.

Foreign Exchange Risk

The Company's international operations, foreign exchange indebtedness and intercompany loans expose the Company to the risk of changes in foreign currency exchange rates. In order to limit this exposure, the Company enters into currency swaps and foreign exchange contracts. Management expects that gains and losses on derivative financial instruments should offset most of the corresponding gains and losses on long-term debt and intercompany loans being hedged, and does not expect net gains or losses on these instruments to have a material effect on the Company's financial results.

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates primarily to its debt securities and debt obligations. The Company has debt securities with fixed rates and long-term debt with both fixed rates and floating rates. Interest rate swap contracts are used by the Company to offset changes in the rates paid on long-term debt. The Company believes that the fair values of interest rate sensitive instruments as of March 31, 1999 and 1998, and potential, near-term losses affecting future earnings, fair values, and/or cash flows from reasonable near term changes in interest rates are immaterial.

Year 2000

1. General Information

a) Policy

TDK regards Y2K compliance as essential to maintaining the company's supply chain and sustaining business operations. Therefore, compliance is a priority corporate issue rather than merely an issue affecting computer systems.

b) Organization

TDK initiated Y2K actions on a global scale at the parent company and all TDK Group companies, including affiliates. Projects for information-related systems started in February 1998 and projects for other systems started in June 1998. Examinations identified the status and problems in each division so that corrective actions could be implemented as necessary.

To speed the formulation of a Y2K contingency plan, TDK in March 1999 established the Y2K Countermeasure Committee under the supervision of a director in charge of the issue. This move bolsters the Y2K compliance organization for conducting company-wide activities. Progress reports are submitted on a regular basis to top management at the TDK Management Committee.

c) State of readiness

The survey for Y2K compliance of all TDK products has been completed to the extent that it is under the Company's control at this moment from the corporate ethical standpoint. Information regarding the result of such survey and the compliance of selected products is being released for each product.

Remediation of essential information processing-related business systems (sales management, production management, accounting, payroll, etc.) and networks was completed as of the end of March 1999. To the extent that it is under the Company's control, remediation of other systems (production equipment, facilities, office equipment, infrastructure, etc.) was largely completed as of the end of March 1999.

TDK has largely completed surveys to verify whether or not major suppliers and customers are Y2K compliant. Companies that are not yet compliant have been asked to finish the neccessary modifications by the end of June 1999, after which their status will be verified.

2. Y2K-related Costs

TDK and its consolidated subsidiaries estimate that total expenditures related to Y2K issue will be approximately ¥2.0 billion, of which approximately ¥1.7 billion has been incurred as of March 31, 1999.

3. Contingency Plan

The Y2K Countermeasure Committee is currently formulating a contingency plan. The objective is to establish a system and actions to avoid or minimize any effect on TDK's operations from a problem caused by a Y2K-compliance oversight. TDK plans to complete this plan by the end of June 1999.

Forward-Looking Statements

This report contains forward-looking statements based on the Company's own projections and estimates. The markets where TDK is active are extremely volatile, subject to rapid shifts in technology, customer demands, prices, changes in economic conditions, and many other variables. Due to the risks and uncertainties involved, actual results could differ substantially from the content of these statements. Therefore, these statements should not be interpreted as representations that such objectives will be fulfilled. Furthermore, TDK makes no commitment to update any forward-looking statements or to disclose any information that may affect the accuracy of these statements.

SEGMENT INFORMATION

The following industry and geographic segment information is required by the Japanese Securities Exchange Law. Segment information is unaudited.

Industry Segment Information

Years ended March 31	Yen (Millions) 1999		Yen (Millions) 1998		U.S. Dollars (Thousands) 1999		Change (%)
ELECTRONIC MATERIALS AND COMPONENTS							
Net sales							
Unaffiliated customers	¥517,073		536,395		$4,273,331		–3.6
Intersegment	–		–		–		
Total revenue	517,073	(100.0%)	536,395	(100.0%)	4,273,331	(100.0%)	–3.6
Operating expenses	447,008	(86.4%)	443,688	(82.7%)	3,694,281	(86.4%)	0.7
Operating profit	¥ 70,065	(13.6%)	92,707	(17.3%)	$ 579,050	(13.6%)	–24.4
Identifiable assets	446,692		442,802		3,691,669		
Depreciation and amortization	41,585		34,646		343,678		
Capital expenditures	45,039		52,185		372,223		
RECORDING MEDIA							
Net sales							
Unaffiliated customers	¥159,177		160,282		$1,315,512		–0.7
Intersegment	–		–		–		
Total revenue	159,177	(100.0%)	160,282	(100.0%)	1,315,512	(100.0%)	–0.7
Operating expenses	152,926	(96.1%)	154,685	(96.5%)	1,263,851	(96.1%)	–1.1
Operating profit	¥ 6,251	(3.9%)	5,597	(3.5%)	$ 51,661	(3.9%)	11.7
Identifiable assets	111,092		126,480		918,116		
Depreciation and amortization	9,375		11,017		77,479		
Capital expenditures	9,291		9,583		76,785		
ELIMINATIONS AND CORPORATE							
Corporate assets	¥182,396		153,578		$1,507,405		
TOTAL							
Net sales							
Unaffiliated customers	¥676,250		696,677		$5,588,843		–2.9
Intersegment	–		–		–		
Total revenue	676,250	(100.0%)	696,677	(100.0%)	5,588,843	(100.0%)	–2.9
Operating expenses	599,934	(88.7%)	598,373	(85.9%)	4,958,132	(88.7%)	0.3
Operating profit	¥ 76,316	(11.3%)	98,304	(14.1%)	$ 630,711	(11.3%)	–22.4
Identifiable and corporate assets	740,180		722,860		6,117,190		
Depreciation and amortization	50,960		45,663		421,157		
Capital expenditures	54,330		61,768		449,008		

Geographic Segment Information

Years ended March 31	Yen (Millions) 1999	Yen (Millions) 1998	U.S. Dollars (Thousands) 1999	Change (%)
JAPAN				
Net sales	¥397,671	434,396	$3,286,537	–8.5
Operating profit	23,225	43,547	191,942	–46.7
Identifiable assets	315,777	323,559	2,609,727	–2.4
AMERICAS				
Net sales	129,916	142,227	1,073,686	–8.7
Operating profit	87	2,593	719	–96.6
Identifiable assets	53,862	71,179	445,141	–24.3
EUROPE				
Net sales	90,045	87,825	744,174	2.5
Operating profit	2,694	3,322	22,264	–18.9
Identifiable assets	48,434	54,291	400,281	–10.8
ASIA AND OTHERS				
Net sales	298,424	286,212	2,466,314	4.3
Operating profit	48,088	49,505	397,422	–2.9
Identifiable assets	184,352	165,638	1,523,570	11.3
ELIMINATIONS AND CORPORATE				
Net sales	239,806	253,983	1,981,868	
Operating profit	(2,222)	663	(18,364)	
Identifiable assets	137,755	108,193	1,138,471	
TOTAL				
Net sales	676,250	696,677	5,588,843	–2.9
Operating profit	76,316	98,304	630,711	–22.4
Identifiable assets	740,180	722,860	6,117,190	2.4

Overseas Sales

Americas	¥120,084	(17.8%)	131,891	(18.9%)	$ 992,430	(17.8%)	–9.0
Europe	93,006	(13.7%)	91,137	(13.1%)	768,645	(13.7%)	2.1
Asia and others	229,818	(34.0%)	209,334	(30.1%)	1,899,322	(34.0%)	9.8
Overseas sales total	442,908	(65.5%)	432,362	(62.1%)	3,660,397	(65.5%)	2.4

<<TEN-YEAR FINANCIAL SUMMARY>>

Years ended March 31

Yen (Millions)

	1999	1998	1997	1996	1995
Net sales	¥676,250	696,677	620,695	541,416	485,121
Electronic materials and components	517,073	536,395	469,559	409,614	352,388
Recording media	159,177	160,282	151,136	131,802	132,733
(Overseas sales)	442,908	432,362	374,076	315,934	275,520
Cost of sales	473,760	469,872	426,341	377,369	342,133
Selling, general, and administrative expenses	126,174	128,501	117,106	109,989	104,668
Income before income taxes	75,425	99,620	103,304	51,933	30,767
Income taxes	29,083	40,887	42,553	24,018	17,634
Net income	46,007	58,371	60,299	27,693	13,017
Per common share (yen):					
Net income/Basic	345.42	438.25	454.51	210.59	98.99
Net income/Diluted	345.42	438.25	452.99	208.64	98.46
Cash dividends	60.00	60.00	55.00	50.00	50.00
Working capital	331,750	315,858	278,625	210,332	200,806
Stockholders' equity	532,111	520,989	474,189	401,995	371,296
Total assets	740,180	722,860	655,874	624,347	563,360
Capital expenditures	54,330	61,768	49,948	46,150	37,457
Depreciation and amortization	50,960	45,663	42,362	42,558	41,696
Research and development	26,333	25,547	23,305	27,147	25,353
Number of employees	31,305	29,747	28,055	29,070	27,276

Yen (Millions)

	1994	1993	1992	1991	1990
Net sales	457,373	526,397	534,866	539,986	477,865
Electronic materials and components	319,627	358,673	369,330	367,499	312,662
Recording media	137,746	167,724	165,536	172,487	165,203
(Overseas sales)	240,575	278,914	270,675	276,943	235,728
Cost of sales	329,970	360,990	360,950	353,653	317,250
Selling, general, and administrative expenses	107,211	120,807	119,896	118,222	104,801
Income before income taxes	17,798	33,448	48,432	62,871	51,345
Income taxes	12,355	14,856	26,661	34,216	28,030
Net income	5,484	18,398	21,588	28,469	23,190
Per common share (yen):					
Net income/Basic	41.70	139.91	165.37	222.84	188.90
Net income/Diluted	41.70	138.85	163.57	220.43	181.34
Cash dividends	50.00	50.00	50.00	46.00	42.00
Working capital	191,701	202,163	198,189	191,963	215,382
Stockholders' equity	374,785	386,408	386,651	366,260	333,523
Total assets	562,905	594,964	627,341	647,262	612,475
Capital expenditures	36,894	47,109	78,239	72,644	43,730
Depreciation and amortization	42,250	41,843	40,197	36,074	32,874
Research and development	26,142	27,670	26,309	26,158	24,875
Number of employees	26,830	26,379	25,073	24,436	21,674

Note: The Company has not applied U.S. generally accepted accounting principles (U.S. GAAP) in accounting for investments in certain debt and equity securities. Stockholders' equity and total assets, in accordance with U.S. GAAP were ¥535,398 million ($4,424,777,000) and ¥743,512 million ($6,144,727,000) as of March 31, 1999, ¥530,791 million and ¥733,104 million as of March 31, 1998, ¥484,994 million and ¥667,227 million as of March 31, 1997, ¥415,984 million and ¥644,854 million as of March 31, 1996, and ¥381,093 million and ¥583,466 million as of March 31, 1995, respectively.

<< CONSOLIDATED STATEMENTS OF INCOME >>

TDK Corporation and Subsidiaries
Years ended March 31, 1999, 1998, and 1997

	Yen (Millions)			U.S. Dollars (Thousands) (Note 2)
	1999	1998	1997	1999
Net sales	¥676,250	696,677	620,695	$5,588,843
Cost of sales	473,760	469,872	426,341	3,915,372
Gross profit	202,490	226,805	194,354	1,673,471
Selling, general, and administrative expenses	126,174	128,501	117,106	1,042,760
Operating profit	76,316	98,304	77,248	630,711
Other income (deductions):				
Interest and dividend income	5,000	2,839	2,611	41,322
Interest expense	(1,177)	(1,035)	(3,078)	(9,727)
Gain on sale of investment securities	14,342	–	–	118,529
Loss on settlement of debt securities	(15,001)	–	–	(123,975)
Loss on disposal of property, plant, and equipment	(2,328)	(2,046)	(2,382)	(19,240)
Gain on sale of SSi (Note 17)	–	–	24,999	–
Other, net	(1,727)	1,558	3,906	(14,273)
	(891)	1,316	26,056	(7,364)
Income before income taxes	75,425	99,620	103,304	623,347
Income taxes (Note 7)	29,083	40,887	42,553	240,355
Income before minority interests	46,342	58,733	60,751	382,992
Minority interests	335	362	452	2,769
Net income	¥ 46,007	58,371	60,299	$ 380,223

	Yen			U.S. Dollars (Note 2)
Amounts per share:				
Net income per share (Note 16):				
Basic	¥345.42	438.25	454.51	$2.85
Diluted	345.42	438.25	452.99	2.85
Cash dividends paid during the year (Note 10)	¥ 60.00	60.00	55.00	$0.50

See accompanying notes to consolidated financial statements.

<< CONSOLIDATED BALANCE SHEETS >>

TDK Corporation and Subsidiaries
March 31, 1999 and 1998

	Yen (Millions)		U.S. Dollars (Thousands) (Note 2)
ASSETS	1999	1998	1999
Current assets:			
Cash and cash equivalents (Note 1 (d))	¥200,119	154,466	$1,653,876
Marketable securities (Note 4)	4,720	12,116	39,008
Trade receivables:			
Notes	12,289	12,931	101,562
Accounts	140,442	162,490	1,160,678
Allowance for doubtful receivables	(3,149)	(3,494)	(26,025)
Net trade receivables	149,582	171,927	1,236,215
Inventories (Note 5)	81,456	93,992	673,190
Prepaid expenses and other current assets (Notes 7 and 8)	24,982	24,055	206,463
Total current assets	460,859	456,556	3,808,752
Investments and advances (Notes 4 and 12)	38,942	23,972	321,835
Property, plant, and equipment, at cost:			
Land	21,188	21,314	175,108
Buildings	151,435	150,880	1,251,529
Machinery and equipment	426,487	422,519	3,524,686
Construction in progress	17,338	11,331	143,289
	616,448	606,044	5,094,612
Less accumulated depreciation	405,765	390,008	3,353,430
Net property, plant, and equipment	210,683	216,036	1,741,182
Other assets (Notes 7 and 8)	29,696	26,296	245,421
	¥740,180	722,860	$6,117,190

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Yen (Millions) 1999	Yen (Millions) 1998	U.S. Dollars (Thousands) (Note 2) 1999
Current liabilities:			
Short-term debt (Note 6)	¥ 2,327	4,175	$ 19,231
Current installments of long-term debt (Note 6)	1,490	1,743	12,314
Trade payables:			
Notes	691	863	5,711
Accounts	56,543	58,680	467,297
Accrued salaries and wages	11,873	15,491	98,124
Other accrued expenses	14,914	16,861	123,256
Income taxes (Note 7)	12,448	12,639	102,876
Other current liabilities (Note 7)	28,823	30,246	238,207
Total current liabilities	129,109	140,698	1,067,016
Long-term debt, excluding current installments (Note 6)	1,787	3,145	14,769
Retirement and severance benefits (Notes 7 and 8)	73,848	54,220	610,314
Deferred income taxes (Note 7)	779	1,228	6,438
Total liabilities	205,523	199,291	1,698,537
Minority interests	2,546	2,580	21,041
Stockholders' equity (Note 4):			
Common stock of ¥50 ($0.41) par value – Authorized 480,000,000 shares; Issued 133,189,659 shares in 1999 and 1998	32,641	32,641	269,760
Additional paid-in capital	63,051	63,051	521,083
Legal reserve (Note 10)	12,674	11,791	104,744
Retained earnings (Note 10)	477,812	440,680	3,948,860
Accumulated other comprehensive income (loss) (Notes 7, 8 and 11)	(54,067)	(27,174)	(446,835)
Total stockholders' equity	532,111	520,989	4,397,612
Commitments and contingent liabilities (Note 13)			
	¥740,180	722,860	$6,117,190

<< CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY >>

TDK Corporation and Subsidiaries
Years ended March 31, 1999, 1998, and 1997

	Yen (Millions)			U.S. Dollars (Thousands) (Note 2)
	1999	1998	1997	1999
Common stock:				
Balance at beginning of period	¥ 32,641	32,641	28,778	$ 269,760
Shares issued on conversion of debentures (Note 9)	–	–	3,863	–
Balance at end of period	32,641	32,641	32,641	269,760
Additional paid-in capital:				
Balance at beginning of period	63,051	63,051	59,189	521,083
Increase arising on conversion of debentures (Note 9)	–	–	3,862	–
Balance at end of period	63,051	63,051	63,051	521,083
Legal reserve (Note 10)**:**				
Balance at beginning of period	11,791	10,354	9,692	97,447
Transferred from retained earnings	883	1,437	662	7,297
Balance at end of period	12,674	11,791	10,354	104,744
Retained earnings (Note 10)**:**				
Balance at beginning of period	440,680	391,737	339,369	3,641,984
Net income	46,007	58,371	60,299	380,223
Cash dividends	(7,992)	(7,991)	(7,269)	(66,050)
Transferred to legal reserve	(883)	(1,437)	(662)	(7,297)
Balance at end of period	477,812	440,680	391,737	3,948,860
Accumulated other comprehensive income (loss) (Notes 7, 8 and 11)**:**				
Balance at beginning of period	(27,174)	(23,594)	(35,033)	(224,579)
Other comprehensive income (loss) for the period, net of tax	(26,893)	(3,580)	11,439	(222,256)
Balance at end of period	(54,067)	(27,174)	(23,594)	(446,835)
Total stockholders' equity (Note 4)	532,111	520,989	474,189	4,397,612
Disclosure of comprehensive income:				
Net income for the period	¥ 46,007	58,371	60,299	$ 380,223
Other comprehensive income (loss) for the period, net of tax (Note 11)	(26,893)	(3,580)	11,439	(222,256)
Total comprehensive income for the period (Note 4)	¥ 19,114	54,791	71,738	$ 157,967

See accompanying notes to consolidated financial statements.

<< CONSOLIDATED STATEMENTS OF CASH FLOWS >>

TDK Corporation and Subsidiaries
Years ended March 31, 1999, 1998, and 1997

	Yen (Millions)			U.S. Dollars (Thousands) (Note 2)
	1999	1998	1997	1999
Cash flows from operating activities:				
Net income	¥ 46,007	58,371	60,299	$ 380,223
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	50,960	45,663	42,362	421,157
Loss on disposal of property and equipment	2,328	1,821	2,382	19,240
Deferred income taxes	5,273	12,880	4,247	43,578
Gain on sale of investment securities	(14,342)	–	–	(118,529)
Loss on settlement of debt securities	15,001	–	–	123,975
Gain on sale of SSi (Note 17)	–	–	(24,999)	–
Other noncash charges – net	8,650	4,410	4,665	71,489
Changes in assets and liabilities:				
Decrease (increase) in trade receivables	11,741	(16,414)	(11,081)	97,033
Decrease (increase) in inventories	7,795	(2,429)	12,682	64,422
Increase in trade payables	3,832	3,254	1,826	31,669
Increase (decrease) in income taxes	39	(5,246)	1,960	322
Other – net	(10,960)	(3,953)	(1,563)	(90,579)
Net cash provided by operating activities	126,324	98,357	92,780	1,044,000
Cash flows from investing activities:				
Capital expenditures	(54,330)	(61,768)	(49,948)	(449,008)
Proceeds from sale of investments	26,418	4	135	218,330
Payment for purchase of investments	(27,539)	(603)	(1,269)	(227,595)
Proceeds from sale and settlement of marketable securities	4,171	–	–	34,471
Proceeds from maturities of marketable securities	6,263	600	–	51,760
Payment for purchase of marketable securities	(18,250)	(8,700)	(600)	(150,826)
Proceeds from sale of SSi (Note 17)	–	–	37,245	–
Proceeds from sale of notes receivable (Note 17)	–	–	21,445	–
Proceeds from maturity of notes receivable (Note 17)	–	–	2,170	–
Other – net	458	(441)	(37)	3,785
Net cash provided by (used in) investing activities	(62,809)	(70,908)	9,141	(519,083)
Cash flows from financing activities:				
Proceeds from long-term debt	83	1,106	163	686
Repayment of long-term debt	(1,512)	(3,004)	(30,309)	(12,496)
Decrease in short-term debt	(1,699)	(2,724)	(28,357)	(14,041)
Dividends paid	(7,992)	(7,991)	(7,269)	(66,050)
Net cash used in financing activities	(11,120)	(12,613)	(65,772)	(91,901)
Effect of exchange rate changes on cash and cash equivalents	(6,742)	1,843	2,080	(55,719)
Net increase in cash and cash equivalents	45,653	16,679	38,229	377,297
Cash and cash equivalents at beginning of period	154,466	137,787	99,558	1,276,579
Cash and cash equivalents at end of period	¥200,119	154,466	137,787	$1,653,876

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

(a) Nature of Operations

TDK is a multinational manufacturer of ferrite products and a producer of coil, ceramic and other components and recording media. TDK, a Tokyo-based company founded in 1935 to commercialize ferrite, now manufactures and sells a broad range of products. TDK's two business segments are electronic materials and components, and recording media, which accounted for 76% and 24% of net sales, respectively, for the year ended March 31, 1999. Main products which are manufactured and sold by the two business segments are as follows:

a) Electronic material and component products:
Ferrite cores, Ceramic capacitors, Coils, GMR heads, MR heads, Semiconductors and others

b) Recording media products:
Audio tapes, Video tapes, Floppy disks, Optical disks and others

TDK sells electronic material and component products to electric and communication equipment manufacturers and audio equipment manufacturers, mainly in Asia and Japan, and recording media products to distribution agents and audio equipment manufacturers, mainly in Japan, Europe, and North America.

(b) Basis of Presentation

The Company and its domestic subsidiaries maintain their books of account in conformity with financial accounting standards of Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile.

The consolidated financial statements presented herein reflect certain adjustments, not recorded on the books of the Company and subsidiaries, to present the financial position, results of operations, and cash flows in conformity with United States generally accepted accounting principles. Such adjustments relate principally to accounting for issue costs for debt with stock purchase warrants, retirement and severance benefits, and recognition of deferred income taxes. See also note 4.

(c) Consolidation Policy

The consolidated financial statements include the accounts of the Company and its subsidiaries. The investments in affiliates in which the Company's ownership is 20% to 50% are accounted for by the equity method.

All significant intercompany accounts and transactions have been eliminated in consolidation.

The excess of cost over underlying net assets at the dates of investment in subsidiaries is included in other assets and is being amortized over a 10-year period.

(d) Cash Equivalents

Cash equivalents include all highly liquid debt instruments purchased with an original maturity of three months or less.

Reverse repurchase agreements with an original maturity of three months or less in the carrying amounts of ¥70,843 million ($585,479,000) and ¥95,579 million at March 31, 1999 and 1998, respectively, are included in cash equivalents. The assets purchased under agreements to resell are legally transferred to the Company when purchased and are put in the custody of counterparties. In the event of default by the counterparty, the Company may cancel the agreement to resell and is compensated by the counterparty for the difference between the market value of the underlying asset at the purchase date and the date when the default occurs.

(e) Marketable Securities

Debt securities included in marketable securities are stated at the lower of cost or market. Marketable equity securities held for long-term investment purposes are included in investments and advances and are carried at the lower of cost or market. The cost of such securities sold is based on average cost.

(f) Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally by the average method.

(g) Depreciation

Depreciation of property, plant, and equipment is computed by the declining-balance method for assets located in Japan and of certain foreign subsidiaries and by the straight-line method for assets of other foreign subsidiaries based on estimated useful lives.

(h) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(i) Retirement and Severance Benefits

The Company accounts for its defined benefit pension and retirement plans in accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions".

The Company adopted Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" (SFAS 132) in the year ended March 31, 1999. SFAS 132 revises employers' disclosures about pension and other postretirement benefit plans and does not change the recognition or measurement of those plans. SFAS 132 does not have an effect on the Company's consolidated financial position and results of operations. All prior years disclosures have been restated to conform with the provisions of SFAS 132.

(j) Advertising Costs

Advertising costs are expensed as incurred.

(k) Foreign Currency Translation

Foreign currency financial statements have been translated in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation" (SFAS 52). Under SFAS 52, the assets and liabilities of the Company's subsidiaries located outside Japan are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rates prevailing during the year. Gains and losses resulting from foreign currency transactions are included in other income (deductions), and those resulting from translation of financial statements are generally excluded from the statements of income and are accumulated in stockholders' equity as foreign currency translation adjustments. The discount or premium on forward exchange contracts used for hedging purposes is amortized over the life of the contracts.

(l) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(m) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company's long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(n) Net Income per Share

Basic net income per share has been computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each year. Diluted net income per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the income of the Company.

(o) Comprehensive Income

The Company adopted the provisions of Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130) in the year ended March 31, 1999 except for the effects on stockholders' equity of the Company's departure from the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (see note 4). Comprehensive income consists of net income, change in foreign currency translation adjustments and change in minimum pension liability adjustments, and is included in the consolidated statements of stockholders' equity. SFAS 130 requries only additional disclosures in the consolidated financial statements and does not affect the Company's consolidated financial position and results of operations. Prior years consolidated financial statements have been reclassified to conform with the provisions of SFAS 130.

(p) New Accounting Standards Not Yet Adopted

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS 133 requires that an entity recognize all

derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (loss), depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The ineffective portion of all hedges will be recognized in earnings. The Company will adopt SFAS 133 for the year ending March 31, 2001. Currently, the effect on the Company's consolidated financial statements of adopting SFAS 133 has not been determined.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). SOP 98-1 provides guidance on when costs for internal use computer software should be capitalized or expensed as incurred and is effective for fiscal years beginning after December 15, 1998. The Company does not expect the adoption of SOP 98-1 to have a material impact on its consolidated financial position and results of operations.

In April 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" (SOP 98-5). SOP 98-5 provides guidance on the financial reporting of start-up costs and organization costs and is effective for fiscal years beginning after December 15, 1998. SOP 98-5 requires costs of start-up activities and organization costs to be expensed as incurred. The Company does not expect the adoption of SOP 98-5 to have a material impact on its consolidated financial position and results of operations.

2. Financial Statement Translation

The consolidated financial statements are expressed in yen in accordance with United States generally accepted accounting principles. Supplementally, however, the Japanese yen amounts as of and for the year ended March 31, 1999, have also been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥121=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 1999. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

3. Foreign Operations

Amounts included in the consolidated financial statements relating to subsidiaries operating in foreign countries are summarized as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	1999	1998	1997	**1999**
Net assets	**¥274,171**	233,508	183,239	**$2,265,876**
Net sales	**423,031**	410,242	349,669	**3,496,124**
Net income	**48,733**	47,942	32,188	**402,752**

4. Marketable Securities and Investments and Advances

In May 1993, the FASB issued Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities" requiring that certain investments in debt and equity securities be classified as held-to-maturity, trading, or available-for-sale securities. Those classified as available-for-sale would be reported at fair value with unrealized gains and losses, net of related taxes, excluded from income and reported as a separate component of other comprehenisve income (loss) until realized. The new Statement would have been applied by the Company for the year ended March 31, 1995.

The Company and approximately thirty other Japanese registrants that file their consolidated financial statements with both the United States Securities and Exchange Commission (SEC) and Japan's Ministry of Finance (MOF) are permitted to file with the MOF consolidated financial statements prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). The Company and certain other such Japanese registrants were concerned as to comparability to financial statements prepared in accordance with accounting principles generally accepted in Japan where such debt and equity securities are reported at cost or the lower of cost or market.

In August 1993, the SEC ruled that it would accept U.S. GAAP filings by the Company and other Japanese registrants that do not follow the accounting provisions of SFAS 115 but that provide information required by SFAS 115 in a note to the financial statements.

There were no effects on net income of the Company's departure from the provisions of SFAS 115 for the years ended March 31, 1999, 1998 and 1997 except for the effect of the income tax rate reduction on year-end deferred income tax balance (see note 7). The effects on balance sheet items of the departure as of March 31, 1999 and 1998, are summarized as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	1999	1998	1999
Stockholders' equity as shown in the financial statements	¥532,111	520,989	$4,397,612
Unrealized holding gains (losses):			
Marketable securities	55	24	455
Investments and advances	5,575	18,225	46,074
Interest rate swaps used to hedge available-for-sale securities	(55)	(24)	(455)
Related tax on unrealized holding gains and losses:			
Noncurrent deferred tax assets	(2,298)	(8,005)	(18,992)
Noncurrent deferred tax liabilities	10	(418)	83
	3,287	9,802	27,165
Stockholders' equity in accordance with U.S. GAAP	¥535,398	530,791	$4,424,777

If the provisions of SFAS 115 had been applied, other comprehensive income would have decreased by ¥6,853 million ($56,636,000), net of related taxes of ¥5,797 million ($47,909,000) for the year ended March 31, 1999, decreased by ¥1,685 million, net of related taxes of ¥1,725 million for the year ended March 31, 1998, and decreased by ¥3,184 million, net of related taxes of ¥3,288 million for the year ended March 31, 1997. The effect on deferred taxes for the income tax rate changes would increase net income by ¥338 million ($2,793,000) and ¥682 million for the years ended March 31, 1999 and 1998, respectively (see note 7).

Marketable securities and investments and advances consist of available-for-sale securities. Information with respect to such securities at March 31, 1999 and 1998, is as follows:

	1999				1998			
	Carrying Amount[1]	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	Carrying Amount[1]	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Yen (Millions):								
Marketable securities:								
Debt securities	¥ 4,720	55	–	4,775	12,116	24	–	12,140
Interest rate swaps used to hedge available-for-sale securities	(22)	–	(55)	(77)	(116)	–	(24)	(140)
Investments and advances:								
Equity securities	25,860	6,766	(1,098)	31,528	12,010	19,402	(1,113)	30,299
Debt securities	386	2	(95)	293	386	12	(76)	322
	¥ 30,944	6,823	(1,248)	36,519	24,396	19,438	(1,213)	42,621
U.S. Dollars (Thousands):								
Marketable securities:								
Debt securities	$ 39,008	455	–	39,463				
Interest rate swaps used to hedge available-for-sale securities	(182)	–	(455)	(637)				
Investments and advances:								
Equity securities	213,719	55,917	(9,074)	260,562				
Debt securities	3,190	16	(785)	2,421				
	$255,735	56,388	(10,314)	301,809				

[1] Carrying amount equals amortized cost.

Debt securities classified as available-for-sale at March 31, 1999 mature in fiscal 2000 through 2008 (weighted average remaining term of 3.0 years).

The proceeds from sale and settlement of available-for-sale securities are ¥30,589 million ($252,801,000), ¥4 million and ¥45 million for the years ended March 31, 1999, 1998 and 1997, respectively. The gross realized gains on the sale of available-for-sale securities are ¥14,669 million ($121,231,000), ¥1 million and ¥10 million for the years ended March 31, 1999, 1998 and 1997, respectively. The gross realized losses on the sale and settlement of available-for-sale securities are ¥15,001 million ($123,975,000), ¥67 million and ¥1 million for the years ended March 31, 1999, 1998 and 1997, respectively.

5. Inventories

Inventories at March 31, 1999 and 1998, are summarized as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	1999	1998	**1999**
Finished goods	**¥31,449**	35,653	**$259,909**
Work in process	**24,744**	30,196	**204,496**
Raw materials	**25,263**	28,143	**208,785**
	¥81,456	93,992	**$673,190**

6. Short-Term and Long-Term Debt

Short-term debt and weighted average interest rates at March 31, 1999 and 1998, are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)	Weighted average interest rate	
	1999	1998	**1999**	**1999**	1998
Short-term bank loans	**¥2,327**	4,175	**$19,231**	**2.58%**	4.56%

At March 31, 1999, unused short-term credit facilities for issuance of commercial paper amounted to ¥35,865 million ($296,405,000).

Long-term debt at March 31, 1999 and 1998, is set forth below:

	Yen (Millions)		U.S. Dollars (Thousands)
	1999	1998	**1999**
Loans from banks, unsecured, due fiscal 1999–2017, interest 4.80%–9.00% (weighted average 1999–7.17%; 1998–6.64%)	**¥2,117**	3,552	**$17,496**
Unsecured floating notes payable, due fiscal 2003	**1,000**	1,144	**8,265**
Other	**160**	192	**1,322**
	3,277	4,888	**27,083**
Less current installments	**1,490**	1,743	**12,314**
	¥1,787	3,145	**$14,769**

The aggregate annual maturities of long-term debt outstanding at March 31, 1999, are as follows:

	Yen (Millions)	U.S. Dollars (Thousands)
Year ending March 31,		
2000	¥1,490	$12,314
2001	625	5,165
2002	38	314
2003	1,012	8,364
2004	4	33
Later years	108	893
	¥3,277	$27,083

As is customary in Japan, short-term and long-term bank loans are made under general agreements that provide that under certain circumstances security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due, or in the event of their default, to offset cash deposits against such obligations due the bank.

7. Income Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate resulted in a statutory rate of approximately 47% in the year ended March 31, 1999 and 51% in the years ended March 31, 1998 and 1997.

Amendments to Japanese tax regulations were enacted into law on March 24, 1999 and on March 31, 1998. As a result of these amendments, the normal income tax rate was reduced from approximately 47% to 41% effective from April 1, 1999 and from approximately 51% to 47% effective from April 1, 1998, respectively. Current income taxes were calculated at the rate of 47% and 51% in effect for the years ended March 31, 1999 and 1998, respectively. Deferred income taxes were calculated at the rate of 41% and 47% for the years ended March 31, 1999 and 1998, respectively. The effects of the income tax rate reduction on deferred income tax balances as of March 31, 1999 and 1998 are immaterial.

The effective rate of the companies for the years ended March 31, 1999, 1998 and 1997, are reconciled with the Japanese statutory rate in the following table:

	1999	1998	1997
Japanese statutory tax rate	**47.0%**	51.0%	51.0%
Expenses not deductible for tax purposes	**0.9**	0.9	1.2
Amortization of goodwill	**0.1**	0.1	0.2
Difference in statutory tax rates of foreign subsidiaries	**(7.6)**	(9.9)	(3.8)
Change in the valuation allowance at the beginning of the year	**(0.5)**	0.5	(3.9)
Other	**(1.3)**	(1.6)	(3.5)
Effective tax rate	**38.6%**	41.0%	41.2%

Total income taxes for the years ended March 31, 1999, 1998 and 1997 are allocated as follows (see note 4):

	Yen (Millions)			U.S. Dollars (Thousands)
	1999	1998	1997	1999
Income before income taxes	**¥29,083**	40,887	42,553	**$240,355**
Stockholders' equity:				
Foreign currency translation adjustments	**(1,837)**	(158)	997	**(15,182)**
Minimum pension liability adjustments	**(8,143)**	(7,824)	(2,880)	**(67,297)**
Total income taxes	**¥19,103**	32,905	40,670	**$157,876**

Income before income taxes and income taxes for the years ended March 31, 1999, 1998 and 1997, are summarized as follows:

		Income Before Income Taxes	Income Taxes		
			Current	Deferred	Total
Yen (Millions):	1999:				
	Japanese	**¥ 22,322**	**19,354**	**5,630**	**24,984**
	Foreign	**53,103**	**4,456**	**(357)**	**4,099**
		¥ 75,425	**23,810**	**5,273**	**29,083**
	1998:				
	Japanese	¥ 43,538	21,361	11,663	33,024
	Foreign	56,082	6,646	1,217	7,863
		¥ 99,620	28,007	12,880	40,887
	1997:				
	Japanese	¥ 59,921	25,874	5,837	31,711
	Foreign	43,383	12,432	(1,590)	10,842
		¥ 103,304	38,306	4,247	42,553
U.S. Dollars (Thousands):	1999:				
	Japanese	**$184,479**	**159,950**	**46,529**	**206,479**
	Foreign	**438,868**	**36,827**	**(2,951)**	**33,876**
		$623,347	**196,777**	**43,578**	**240,355**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 1999 and 1998, are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	1999	1998	**1999**
Deferred tax assets:			
Inventories, principally due to elimination of intercompany profit	**¥ 2,814**	4,155	**$ 23,256**
Accrued business tax	**974**	861	**8,050**
Accrued expenses	**1,416**	1,342	**11,702**
Retirement and severance benefits	**1,148**	43	**9,488**
Net operating loss carryforwards	**911**	1,870	**7,529**
Tax credit carryforwards	**1,530**	1,547	**12,645**
Minimum pension liability adjustments	**21,788**	16,834	**180,066**
Other	**2,078**	2,117	**17,173**
Total gross deferred tax assets	**32,659**	28,769	**269,909**
Less valuation allowance	**(2,386)**	(3,139)	**(19,719)**
Net deferred tax assets	**30,273**	25,630	**250,190**
Deferred tax liabilities:			
Trade accounts receivable, principally due to allowance for doubtful debt	**(332)**	(642)	**(2,744)**
Investments, principally due to undistributed earnings of foreign subsidiaries and differences in valuation	**(19,670)**	(19,245)	**(162,562)**
Property, plant, and equipment, principally due to differences in depreciation	**(1,663)**	(2,040)	**(13,744)**
Other	**(201)**	(283)	**(1,661)**
Total gross deferred tax liabilities	**(21,866)**	(22,210)	**(180,711)**
Net deferred tax assets	**¥ 8,407**	3,420	**$ 69,479**

The net changes in the total valuation allowance for the years ended March 31, 1999, 1998 and 1997, are a decrease of ¥753 million ($6,223,000), decrease of ¥31 million and decrease of ¥4,609 million, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowance at March 31, 1999.

At March 31, 1999, certain subsidiaries have net operating loss carryforwards for income tax purposes of ¥3,026 million ($25,008,000) which are available to offset future taxable income, if any. Approximately ¥264 million ($2,182,000) and ¥570 million ($4,711,000) of the operating losses expire in fiscal 2000 and through 2004, while the remainder have an indefinite carryforward period. Certain subsidiaries also have tax credit carryforwards for income tax purposes of ¥1,530 million ($12,645,000) which are available to reduce future income taxes, if any. Approximately ¥1,103 million ($9,116,000) and ¥252 million ($2,083,000) of the tax credit carryforwards expire in fiscal 2000 and through 2009, respectively, while the remainder have an indefinite carryforward period.

Net deferred income tax assets and liabilities at March 31, 1999 and 1998, are reflected in the accompanying consolidated balance sheets under the following captions:

	Yen (Millions)		U.S. Dollars (Thousands)
	1999	1998	**1999**
Prepaid expenses and other current assets	**¥ 2,671**	2,966	**$ 22,074**
Other assets	**22,390**	16,462	**185,041**
Other current liabilities	**(15,875)**	(14,780)	**(131,198)**
Deferred income taxes	**(779)**	(1,228)	**(6,438)**
	¥ 8,407	3,420	**$ 69,479**

Income taxes have not been accrued for undistributed earnings of domestic subsidiaries and affiliates as distributions of such earnings are not taxable under present circumstances.

Japanese income taxes have not been provided for certain earnings of foreign subsidiaries and affiliates because the Company currently does not expect those unremitted earnings to reverse and become taxable to the Company in the foreseeable future. A deferred tax liability will be recognized when the Company expects that it will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. As of March 31, 1999, the undistributed earnings of these subsidiaries and affiliates were approximately ¥107,798 million ($890,893,000).

8. Retirement and Severance Benefits

The Company and certain subsidiaries have noncontributory retirement and severance plans that provide for pension or lump-sum payment benefits, based on length of service and certain other factors, to employees who retire or terminate their employment for reasons other than dismissal for cause. In addition, the majority of the employees of the Company are covered by a contributory pension plan, whose benefits are based on length of service and certain other factors and include a portion representing the government social security welfare pension. The Company's funding is in accordance with income tax and welfare pension regulations. The Company's contribution to the plan is equal to the normal cost plus amortization of prior service costs over approximately 3 years. The Company also has an unfunded retirement plan for directors and statutory auditors.

Reconciliations of beginning and ending balances of the benefit obligations and the fair value of the plan assets are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	1999	1998	1999
Change in benefit obligations:			
Benefit obligations at beginning of period	¥179,064	149,093	$1,479,868
Service cost	8,537	7,491	70,554
Interest cost	6,073	5,644	50,190
Plan participants' contributions	652	642	5,388
Actuarial loss	19,125	20,975	158,058
Benefits paid	(4,769)	(4,457)	(39,413)
Translation adjustment	(380)	(324)	(3,141)
Benefit obligations at end of period	208,302	179,064	1,721,504
Change in plan assets:			
Fair value of plan assets at beginning of period	108,011	90,459	892,654
Actual return on plan assets	546	5,735	4,512
Employer contributions	7,575	13,395	62,603
Plan participants' contributions	652	642	5,388
Benefits paid	(2,784)	(2,452)	(23,008)
Translation adjustment	(216)	232	(1,785)
Fair value of plan assets at end of period	113,784	108,011	940,364
Funded status	(94,518)	(71,053)	(781,140)
Unrecognized net transition obligation being recognized over 18 years	(11,701)	(13,033)	(96,702)
Unrecognized net actuarial loss	87,132	67,660	720,098
Net amount recognized	¥ (19,087)	(16,426)	$ (157,744)
Amounts recognized in the statement of financial position consist of:			
Prepaid benefit cost	¥ 0	155	$ 0
Accrued benefit liability	(73,848)	(54,220)	(610,314)
Intangible assets	1,618	1,822	13,372
Accumulated other comprehensive income (loss)	53,143	35,817	439,198
Net amount recognized	¥ (19,087)	(16,426)	$ (157,744)
Actuarial present value of accumulated benefit obligations at end of period	¥187,861	161,987	$1,552,570

Net cost of retirement and severance benefits for the years ended March 31, 1999, 1998 and 1997, consisted of the following:

	Yen (Millions)			U.S. Dollars (Thousands)
	1999	1998	1997	1999
Components of net periodic benefit cost:				
Service cost	¥ 8,537	7,491	6,821	$ 70,554
Interest cost	6,073	5,644	5,603	50,190
Expected return on plan assets	(3,929)	(3,731)	(3,885)	(32,471)
Amortization of transition assets	(1,331)	(1,331)	(1,331)	(11,000)
Recognized actuarial loss	3,044	2,224	1,897	25,157
Net periodic benefit cost	¥12,394	10,297	9,105	$102,430

The weighted-average discount rates used in determining the present value of benefit obligations and expected long-term rate of return on assets were 3.0% in 1999 and 3.5% in 1998. The rates of increase in future compensation levels were 3% for 1999 and 1998.

Plan assets comprise primarily listed stock, bonds and other interest-bearing securities.

9. Common Stock

During the year ended March 31, 1997, the Company issued 1,671,159 shares, of common stock in connection with the conversion of debentures. In accordance with the applicable provisions of the Japanese Commercial Code, the proceeds from issuance of the new shares have been accounted for by crediting the common stock account and additional paid-in capital account in equal amounts.

10. Legal Reserve and Dividends

The Japanese Commercial Code provides that dividends be paid based on retained earnings determined in conformity with financial accounting standards of Japan, with certain restrictions, and that an amount equal to at least 10% of cash dividends and of certain other items be appropriated as a legal reserve until such reserve equals 25% of stated capital. The legal reserve is not available for dividends but may be used to reduce a deficit or transferred to stated capital. Certain foreign subsidiaries are also required to appropriate earnings to legal reserves under the laws of the respective countries.

Cash dividends and appropriations to the legal reserve charged to retained earnings during the periods represent dividends paid out during the periods and related appropriations to the legal reserve. The accompanying consolidated financial statements do not include any provision for the dividend proposed by the Board of Directors of ¥35 ($0.29) per share aggregating ¥4,661 million ($38,521,000) in respect of the year ended March 31, 1999, or for the related appropriation to the legal reserve.

Cash dividends per common share are computed based on dividends paid for the year.

11. Other Comprehensive Income (Loss)

Change in accumulated other comprehensive income (loss) for the years ended March 31, 1999, 1998 and 1997 are as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	1999	1998	1997	**1999**
Foreign currency translation adjustments:				
Balance at beginning of period	**¥ (9,623)**	(13,562)	(27,766)	**$ (79,529)**
Adjustments for period	**(17,710)**	3,939	14,204	**(146,364)**
Balance at end of period	**(27,333)**	(9,623)	(13,562)	**(225,893)**
Minimum pension liability adjustments:				
Balance at beginning of period	**(17,551)**	(10,032)	(7,267)	**(145,050)**
Adjustments for period	**(9,183)**	(7,519)	(2,765)	**(75,892)**
Balance at end of period	**(26,734)**	(17,551)	(10,032)	**(220,942)**
Total accumulated other comprehensive income (loss):				
Balance at beginning of period	**(27,174)**	(23,594)	(35,033)	**(224,579)**
Adjustments for period	**(26,893)**	(3,580)	11,439	**(222,256)**
Balance at end of period	**¥(54,067)**	(27,174)	(23,594)	**$(446,835)**

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the years ended March 31, 1999, 1998 and 1997 are as follows:

	Yen (Millions)		
	Before tax amount	Tax (expense) or benefit	Net-of-tax amount
1999:			
Foreign currency translation adjustments	**¥(19,547)**	**1,837**	**(17,710)**
Minimum pension liability adjustments	**(17,326)**	**8,143**	**(9,183)**
Other comprehensive income (loss)	**¥(36,873)**	**9,980**	**(26,893)**
1998:			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of period	¥ 3,952	158	4,110
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	(171)	–	(171)
Net change in foreign currency translation adjustments during the period	3,781	158	3,939
Minimum pension liability adjustments	(15,343)	7,824	(7,519)
Other comprehensive income (loss)	¥(11,562)	7,982	(3,580)
1997:			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of period	¥ 16,497	(997)	15,500
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	(1,296)	–	(1,296)
Net change in foreign currency translation adjustments during the period	15,201	(997)	14,204
Minimum pension liability adjustments	(5,645)	2,880	(2,765)
Other comprehensive income (loss)	¥ 9,556	1,883	11,439

	U.S. Dollars (Thousands)		
	Before tax amount	Tax (expense) or benefit	Net-of-tax amount
1999:			
Foreign currency translation adjustments	**$(161,546)**	**15,182**	**(146,364)**
Minimum pension liability adjustments	**(143,189)**	**67,297**	**(75,892)**
Other comprehensive income (loss)	**$(304,735)**	**82,479**	**(222,256)**

12. Leases

The companies occupy offices and other facilities under various cancellable lease agreements expiring in fiscal 2000 through 2009. Lease deposits made under such agreements, aggregating ¥1,830 million ($15,124,000) and ¥1,682 million, at March 31, 1999 and 1998, respectively, are included in investments and advances on the accompanying consolidated balance sheets.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of March 31, 1999:

	Yen (Millions)	U.S. Dollars (Thousands)
Year ending March 31,		
2000	¥2,280	$18,843
2001	1,633	13,496
2002	1,123	9,281
2003	687	5,678
2004	329	2,719
Later years	855	7,066
	¥6,907	$57,083

13. Commitments and Contingent Liabilities

At March 31, 1999, commitments outstanding for the purchase of property, plant, and equipment approximated ¥15,535 million ($128,388,000). Contingent liabilities for guarantees of loans of the Company's employees and affiliates amounted to approximately ¥9,047 million ($74,769,000).

Several claims and legal actions against the Company and certain subsidiaries are pending. Provision has been made for the estimated liabilities for certain items. In the opinion of management, based upon discussion with counsel, any additional liability will not materially affect the consolidated financial position or results of operations of the Company.

14. Financial Instruments

The Company and certain of its subsidiaries use financial instruments with off-balance-sheet risk, such as currency and interest rate swaps and forward foreign exchange contracts, to limit their exposure to fluctuations in foreign exchange rates and interest rates. The Company and its subsidiaries do not hold or issue financial instruments for trading purposes. The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to those financial instruments, but does not expect any counterparties to fail to meet their obligations given their high credit ratings. The credit exposure of currency and interest rate swaps and forward foreign exchange contracts is represented by the fair value of contracts with a positive fair value at the reporting date.

Currency swaps and forward foreign exchange contracts are agreements to exchange different currencies at a specified rate on a specific future date. Interest rate swaps generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amount.

Certain debt securities included in marketable securities are covered, for hedging purposes, by interest rate swap agreements of which notional amounts totaled ¥1,913 million ($15,810,000) and ¥2,098 million as of March 31, 1999 and 1998, respectively. The remaining term of the interest rate swap is 1.3 years as of March 31, 1999. Gains on these swaps are recognized, when the total fair value of hedged securities is lower than cost, in the amount not exceeding the losses on hedged securities, and are included in prepaid expenses and other current assets in the consolidated balance sheets. Losses on these swaps are recognized, when aggregate unrealized losses on swaps exceed aggregate unrealized gains on hedged securities, in the amount of such excess, and are included in other current liabilities in the consolidated balance sheets. Gains or losses on swaps, when recognized, are included in other, net in the consolidated statements of income.

Certain of the Company's subsidiaries entered into currency and interest rate swap agreements with certain financial institutions to limit their exposure to fluctuations in foreign exchange rates and interest rates involved in loans from financial institutions. These agreements have a total notional and contract amount of ¥1,524 million ($12,595,000) and ¥2,598 million at March 31, 1999 and 1998, respectively. The remaining term of the interest rate and currency swaps range from eight months to 1.5 years (weighted average remaining term of 1.2 years) as of March 31, 1999. Under these swaps, the Company's subsidiaries pay 3.3% p.a. to 7.7% p.a. (weighted average rate of 4.6% p.a.) and receive 4.4% p.a. to 8.6% p.a. (weighted average rate of 7.3% p.a.) of the total notional and contract amount. Gains or losses on the currency swaps used for loans from financial institutions are included in other, net in the consolidated statements of income in the period in which the exchange rates change, and such gains or losses are included in other assets or long-term debt, as the case may be, in the consolidated balance sheet.

The Company has currency swaps with certain financial institutions to limit its exposure to fluctuations in foreign exchange rates involved in loans made by the Company to its subsidiaries in a total amount of ¥8,531 million ($70,504,000) and ¥10,621 million at March 31, 1999 and 1998, respectively. These swaps require the Company to pay principally U.S. dollars and to receive Japanese yen at a specified rate on specific dates. The remaining term of the currency swaps range from four months to 2.5 years as of March 31, 1999. Gains or losses on these currency swaps are included in other, net in the consolidated statements of income in the period in which the exchange rates change and included in prepaid expenses and other current assets, other assets, or other current liabilities, as the case may be, in the consolidated balance sheets depending on the remaining term of the swaps.

At March 31, 1999 and 1998, as a hedge against currency fluctuation, the Company and certain of its subsidiaries had forward exchange contracts to sell foreign currencies (principally U.S. dollars, Malaysia Ringgit and German marks) in the amount of ¥12,608 million ($104,198,000) and ¥8,230 million, respectively.

15. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments in cases for which it is practical to estimate the value:

(a) Cash and cash equivalents, Trade receivables, Short-term debt, Trade payables, Accrued salaries and wages, Other accrued expenses, and Other current liabilities.

The carrying amount approximates fair value because of the short maturity of these instruments.

(b) Marketable securities and Investments and advances

The fair values of most of the marketable securities and investments and advances are estimated based on quoted market prices for these instruments. For other securities for which there are no quoted market prices, a reasonable estimate of fair values could not be made without incurring excessive costs. Additional information pertinent to the value of unquoted investments is provided below.

(c) Long-term debt

The fair values of each of the Company's long-term debts are estimated based on the amount of future cash flows associated with each instrument discounted using the Company's current borrowing rate for similar debt of comparable maturity, or based on the quoted market prices for the same or similar issues.

(d) Currency and Interest Rate Swaps and Forward Foreign Exchange Contracts

The fair values of currency and interest rate swaps and forward foreign exchange contracts are estimated by obtaining quotes from financial institutions.

The carrying amounts and estimated fair values of the Company's financial instruments at March 31, 1999 and 1998, are summarized as follows:

	Yen (Millions)				U.S. Dollars (Thousands)	
	1999		1998		1999	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Nonderivatives:						
Assets:						
Marketable securities	¥ 4,720	4,775	12,116	12,140	$ 39,008	39,463
Investments and advances for which it is:						
Practicable to estimate fair value	28,165	33,740	13,857	32,082	232,769	278,843
Not practicable to estimate fair value	508	–	475	–	4,198	–
Liability:						
Long-term debt	(3,117)	(3,223)	(4,696)	(4,805)	(25,761)	(26,636)
Derivatives:						
Currency and interest rate swaps in a:						
Gain position	374	442	–	169	3,091	3,653
Loss position	(133)	(268)	(621)	(792)	(1,099)	(2,215)
Forward foreign exchange contracts in a:						
Gain position	191	232	89	148	1,579	1,917
Loss position	(73)	(64)	(151)	(103)	(603)	(529)

The carrying amounts of the nonderivative assets and liability are included in the consolidated balance sheets under the indicated captions. The carrying amounts of the currency and interest rate swaps in a gain position are included in prepaid expenses and other current assets, while those in a loss position are included in other current liabilities. The carrying amounts of the forward foreign exchange contracts in a gain position are included in prepaid expenses and other current assets, while those in a loss position are included in other current liabilities.

It is not practicable to estimate the fair value of investments in untraded companies. Management believes that the original costs approximate fair value. Additionally, it is not practicable to estimate the fair value of the loan guarantees disclosed in note 13. However, management believes that such guarantees, and the performance thereunder, will not have a material adverse effect on the Company's consolidated financial statements.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

16. Net Income per Share

A reconciliation of the numerators and denominators of the basic and diluted net income per share computations is as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	1999	1998	1997	1999
Net income available to common stockholders	¥46,007	58,371	60,299	$380,223
Effect of dilutive securities:				
1.4% unsecured convertible debentures	–	–	39	–
Diluted net income	¥46,007	58,371	60,338	$380,223

	Number of shares (Thousands)			
	1999	1998	1997	**1999**
Average common shares outstanding	**133,190**	133,190	132,667	
Dilutive effect of:				
1.4% unsecured convertible debentures	**–**	–	533	
Diluted common shares outstanding	**133,190**	133,190	133,200	

	Yen			U.S. Dollars
Net income per share:				
Basic	**¥345.42**	438.25	454.51	**$2.85**
Diluted	**345.42**	438.25	452.99	**2.85**

17. Sale of SSi

In July 1996, the Company sold a 100% share of its equity interest in California-based Silicon Systems, Inc. (SSi) to Texas Instruments Incorporated for ¥62,743 million, which included 4% promissory notes of ¥25,498 million, denominated in U.S. dollars, due from SSi, maturing from December 31, 1996 through March 31, 2001. The notes were recorded at ¥23,423 million, representing their estimated fair value at the time of the transaction. The sale of the investment in SSi resulted in a pretax gain of ¥24,999 million and an after-tax gain of ¥18,389 million. SSi's operating results included in the consolidated statements of income were net sales of ¥17,785 million for the year ended March 31, 1997. Upon the sale of SSi, the Company repaid ¥23,622 million of long-term loans to a certain bank in compliance with the provision of the loan agreements, which restricted the utilization of funds only to SSi's business, and canceled related interest rate and currency swaps. The repayment of the loans and cancellation of swaps resulted in a gain, which was not material and included in gain on sale of SSi in the consolidated statements of income. In September 1996, certain of the 4% notes receivable from SSi in the face amount of ¥23,328 million were sold to banks. The gain on sale of the notes, which was immaterial, is included in other, net in the consolidated statements of income.

18. Supplementary Information

	Yen (Millions)			U.S. Dollars (Thousands)
	1999	1998	1997	**1999**
(a) Statement of Income				
Exchange gains (losses)	**¥ (1,777)**	2,701	3,121	**$ (14,686)**
Research and development	**26,333**	25,547	23,305	**217,628**
Rent	**8,802**	8,541	8,349	**72,744**
Maintenance and repairs	**11,752**	11,404	10,661	**97,124**
Advertising costs	**14,927**	15,277	14,635	**123,364**
(b) Statement of Cash Flows				
Cash paid during year for:				
Interest	**¥ 1,185**	1,071	3,715	**$ 9,793**
Income taxes	**¥22,368**	34,833	36,542	**$184,860**

Noncash investing and financing activities

In 1999 and 1998, there were no material noncash investing and financing activities.

In 1997, convertible debentures of ¥7,725 million were converted into 1,671,159 shares of common stock.

In 1997, the Company sold its subsidiary, Silicon Systems, Inc. for ¥62,743 million, which included promissory notes of ¥25,498 million.

The Board of Directors
TDK Corporation:

We have audited the accompanying consolidated balance sheets of TDK Corporation and subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of income, stockholders' equity, and cash flows for the years ended March 31, 1999, 1998, and 1997, all expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in note 4 to the consolidated financial statements, TDK Corporation and subsidiaries have stated investments in certain debt and equity securities at the lower of cost or market as of March 31, 1999 and 1998. Such securities, in our opinion, should be stated at fair value and resulting net unrealized gains or losses reported as a separate component of other comprehensive income (loss) in order to conform with United States generally accepted accounting principles.

The segment information required to be disclosed in financial statements under United States generally accepted accounting principles is not presented in the accompanying consolidated financial statements. Foreign issuers are presently exempted from such disclosure requirement in Securities Exchange Act filings with the United States Securities and Exchange Commission.

In our opinion, except for the effects of not stating investments in certain debt and equity securities at fair value and reporting the resulting net unrealized gains or losses as a separate component of other comprehensive income (loss) as of March 31, 1999 and 1998, as discussed in the third paragraph of this report, and except that the omission of the segment information results in an incomplete presentation, as discussed in the preceding paragraph, the consolidated financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of TDK Corporation and subsidiaries at March 31, 1999 and 1998, and the results of their operations and their cash flows for the years ended March 31, 1999, 1998, and 1997, in conformity with United States generally accepted accounting principles.

The consolidated financial statements as of and for the year ended March 31, 1999, have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in note 2 to the consolidated financial statements.

Tokyo, Japan
May 13, 1999

INVESTOR INFORMATION

TDK Listed NYSE

TDK CORPORATION

CORPORATE HEADQUARTERS
1-13-1, Nihonbashi, Chuo-ku,
Tokyo 103-8272, Japan

DATE OF ESTABLISHMENT
December 7, 1935

AUTHORIZED NUMBER OF SHARES
480,000,000 shares

SECURITIES TRADED
Common stock: Tokyo, Osaka, Amsterdam, London, Paris, and Zurich Stock Exchanges
ADRs: New York Stock Exchange
DRs: Brussels and Antwerp Stock Exchanges
GBCs: Frankfurt Stock Exchange

NUMBER OF SHAREHOLDERS
6,269

INDEPENDENT AUDITORS
KPMG

TRANSFER AGENT
The Chuo Trust & Banking Co., Ltd.
1-7-1, Kyobashi, Chuo-ku, Tokyo 104-8345, Japan

(As of March 31, 1999)

QUARTERLY RESULTS AND STOCK PRICE DATA

Yen in millions, except for per share amounts

Fiscal 1998	I	II	III	IV
Net sales	¥163,667	¥165,554	¥190,010	¥177,446
Net income	13,288	12,343	18,476	14,264
Net income per share (basic)	99.77	92.68	138.72	107.08
Net income per share (diluted)	99.77	92.68	138.72	107.08
Stock price (Tokyo Stock Exchange):				
High	9,480	11,100	11,900	10,600
Low	8,170	8,320	9,150	8,860
Fiscal 1999	**I**	**II**	**III**	**IV**
Net sales	¥173,448	¥179,402	¥167,901	¥155,499
Net income	13,766	14,811	10,728	6,702
Net income per share (basic)	103.35	111.20	80.55	50.32
Net income per share (diluted)	103.35	111.20	80.55	50.32
Stock price (Tokyo Stock Exchange):				
High	11,310	11,350	10,750	10,410
Low	10,050	8,260	6,700	8,160

Note: All quarterly data are unaudited and have not been reviewed by the independent auditors.

PUBLICATIONS
The following English-language publications are also available on written request:
>> Semiannual Report
>> Value and Performance Indicators
>> Corporate Brochure

INTERNET ADDRESS
http://www.tdk.co.jp/

FURTHER INFORMATION
For further information and additional copies of this report and other publications, please contact:

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